

file

Official Transcript of Proceedings

Before the

UNITED STATES POSTAL RATE COMMISSION

In the Matter of: SPECIAL SERVICES FEES AND
CLASSIFICATIONS

Docket No. MC96-3

VOLUME 5

HEARING

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

DATE: Monday, November 18, 1996

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Washington, D.C. 20005
(202) 842-0034

1 BEFORE THE
2 POSTAL RATE COMMISSION

3 - - - - - X

4 In the Matter of: :

5 SPECIAL SERVICES FEES AND : Docket No. MC96-3

6 CLASSIFICATIONS :

7 - - - - - X

8

9 Third Floor Hearing Room
10 Postal Rate Commission
11 1333 H Street, N.W.
12 Washington, D.C. 20268

13

14 Volume 5

15 Monday, November 18, 1996

16

17 The above-entitled matter came on for hearing,
18 pursuant to notice, at 9:35 a.m.

19

20 BEFORE:

21 HON. EDWARD J. GLEIMAN, CHAIRMAN

22 HON. W.H. "TREY" LeBLANC, III, VICE CHAIRMAN

23 HON. H. EDWARD QUICK, JR., COMMISSIONER, PRESIDING

24 HON, GEORGE W. HALEY, COMMISSIONER

25

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P R O C E E D I N G S

[9:35 a.m.]

COMMISSIONER QUICK: Good morning.

Today we begin hearings in Docket MC96-3 to receive the direct cases of participants other than the Postal Service including their rebuttal to the Postal Service.

Hearings have been scheduled for today, tomorrow and Wednesday.

In addition, we have -- we will convene a week from today to complete this round of hearings. On that day, we will receive the testimony of Douglas Carlson and we will also hear testimony from a Postal Service witness who will be available to answer questions concerning the current status of plans for the implementation of the Postal Service's proposals.

Is the Postal Service able to identify the individual who will respond to questions concerning implementation?

Mr. Hollies?

MR. HOLLIES: There has been a good deal of discussion within the Postal Service. My understanding is as of late last week the identity of the intended witness had been changed.

However, I have not been given an absolutely final

1 word to that effect so I have some reluctance to put what is
2 now the targeted gentleman's name in play.

3 COMMISSIONER QUICK: Perhaps later in the day or
4 tomorrow you will be able to?

5 MR. HOLLIES: I will see what I can do on that. I
6 don't think it should be too hard.

7 COMMISSIONER QUICK: Okay, thank you.

8 Presiding Officer Ruling 25 provided for written
9 requests for oral cross-examination of the Postal Service
10 witness on implementation or, in the alternative, it allowed
11 participants to indicate their intention to cross-examine
12 this witness at today's hearing.

13 Douglas Carlson filed a written notice of intent
14 to conduct oral cross-examination. Does any other
15 participant intend to cross-examine this yet-to-be-named
16 Postal Service witness?

17 Mr. Costich?

18 MR. COSTICH: Commissioner Quick, the OCA doesn't
19 plan to have any prepared oral cross but certainly would
20 reserve the right to follow up on what does take place.

21 COMMISSIONER QUICK: All right.

22 This morning, three witnesses are scheduled to
23 testify. However, before we begin, I have several
24 procedural matters to address.

25 Mr. Reporter, please note at the beginning of

1 today's transcript that several procedural rulings were made
2 at this point.

3 COMMISSIONER QUICK: First, on November 14, the
4 Postal Service filed a motion to strike the testimony of
5 Witnesses Bentley and Thompson. The Postal Service
6 suggested that testimony, written cross-examination and oral
7 cross-examination be received into evidence subject to a
8 subsequent ruling on its motion. This procedure would allow
9 hearings to proceed as scheduled.

10 Does any participant oppose this suggestion?

11 [No response.]

12 COMMISSIONER QUICK: I will follow the Postal
13 Service suggestion and receive testimony and cross-
14 examination into evidence subject to any ruling I make on
15 the Postal Service motion.

16 [Ruling to receive the direct
17 testimony, written cross-
18 examination and oral cross-
19 examination of witnesses Bentley
20 and Thompson subject to the
21 Commission's future ruling on the
22 U.S.P.S. motion to strike the
23 testimony of witnesses Bentley and
24 Thompson.]

25 COMMISSIONER QUICK: I have several comments to

1 make on the motion itself. First, our special rules for
2 this case specify that motions to strike should be filed 14
3 days before the appearance of the witness. The Postal
4 Service does not explain why it failed to adhere to this
5 requirement. I would like the Postal Service to supplement
6 its motion with a discussion of this point.

7 Further, the Postal Service does not identify by
8 page and line the testimony it wishes to -- it wishes be
9 excluded from the record. Motions to strike should be
10 narrowly drawn to exclude only the testimony which is
11 considered to be inappropriate.

12 Following the receipt of today's transcript, in
13 the case of Witness Thompson and tomorrow's transcript in
14 the case of Witness Bentley, the Postal Service is to
15 identify by page and line the material it wishes to be
16 stricken from the record.

17 Further, the service is to provide sufficient
18 explanation to enable me to understand the link between the
19 witness's testimony and the grounds for exclusion relied on
20 by the Postal Service.

21 Those supplemental filings are to be provided by
22 November 21 for Witness Thompson and by November 22 for
23 Witness Bentley. Responses to the Postal Service motion as
24 supplemented would ordinarily be due on November 28. I
25 would still prefer to receive answers by close of business

1 on November 28; however, should the intervention of the
2 Thanksgiving holiday pose a significant production problem,
3 I will grant requests to submit answers by 12:00 noon on
4 Monday, December 2.

5 Our current schedule calls for the filing of
6 evidence and rebuttal to the direct cases of participants
7 other than the Postal Service on or before December 6. It
8 is unfortunate the Postal Service filed its motion to strike
9 late. I hope this event does not seriously inconvenience
10 other participants; however, I would like to maintain our
11 established schedule and parties should proceed to prepare
12 surrebuttal testimony for filing on December 6 as though no
13 testimony or cross-examination is stricken as a result of
14 the Postal Service motion.

15 The Postal Service also has filed motions to
16 compel responses from two OCA witnesses. Thursday, it filed
17 a motion to compel two responses from Office of the Consumer
18 Advocate Witness Collins. Late Friday afternoon, it filed a
19 similar motion concerning Witness Callow. Both Witness
20 Collins and Witness Callow are scheduled to testify later
21 this morning.

22 Mr. Costich or Ms. Dreifuss -- I'm sorry,
23 Mr. Costich, I will call on OCA to orally respond to each of
24 these motions separately after the affected witness's
25 written cross-examination is received in evidence but before

1 oral cross-examination begins.

2 Is that acceptable?

3 MR. COSTICH: Yes, Commissioner Quick.

4 COMMISSIONER QUICK: Thank you.

5 Finally, the Postal Service filed a motion for
6 protective conditions for in-camera designation of witness
7 -- of written cross examination of Nashua Mystic Seattle
8 witness Haldi. Three written responses by witness Haldi to
9 discovery requests are involved. Does any counsel wish to
10 address that motion?

11 I will grant this motion subject to any request
12 for reconsideration made before Witness Haldi completes his
13 oral testimony on November 19th.

14 [Ruling to grant the U.S.P.S.
15 motion for protective conditions
16 for in-camera designation of the
17 written cross-examination of
18 witness Haldi subject to regeusts
19 for reconsideration made prior to
20 the completion of withess Haldi's
21 oral testimony scheduled for
22 November 19, 1996.]

23 COMMISSIONER QUICK: Since the motion does not
24 raise any issue involving oral cross examination on matters
25 subject to my ruling number 24 granting protective

1 conditions to certain information and the Postal Service's
2 request to conduct oral cross examination also is silent on
3 this point, I am assuming that the Postal Service does not
4 desire oral cross examination on these topics. If my
5 assumption is wrong, I would like to be notified
6 immediately.

7 Ms. Duchek?

8 MS. DUCHEK: Commissioner Quick, we would have to
9 check back at the office on that and then we will let you
10 know.

11 COMMISSIONER QUICK: Thank you very much.

12 Presiding officer's ruling MC96-3/25 established
13 the procedure for incorporating into the evidentiary record
14 certain types of information previously provided by the
15 Postal Service. I have received a request from the Office
16 of Consumer Advocate to extend the date for designation of
17 these materials for one week until November 21st. I will
18 grant the OCA motion.

19 [Ruling to grant the Office of
20 Consumer Advocate motion to extend
21 the date for incorporating into the
22 evidentiary record certain types of
23 information previously provided by
24 the U.S.P.S. to November 21, 1996.]

25 COMMISSIONER QUICK: These materials will be

1 incorporated into the transcript on Monday, November 25th,
2 when a Postal Service witness will appear to discuss the
3 status of implementation plans.

4 I will grant the OCA motion to avoid unnecessary
5 effort of participants evaluating what they might wish to
6 designate. Let me give notice that I intend to admit into
7 evidence all of the answers that the Postal Service has
8 already provided to presiding officer information request.
9 Any participant requiring the opportunity to orally cross
10 examine the sponsoring witnesses of responses to presiding
11 officer information request or institutional responses
12 should submit an appropriate motion by close of business
13 Wednesday, November 20th.

14 Mr. Costich, will you identify today's first
15 witness so that I can swear her in.

16 MS. DUCHEK: Commissioner Quick?

17 COMMISSIONER QUICK: Yes, Ms. Duchek.

18 MS. DUCHEK: Could I ask for clarification? On
19 your discussion of the Postal Service's November 14th motion
20 to strike, you had asked that the Postal Service file a
21 supplemental pleading addressing the 14-day deadline before
22 the witness appears for submission of motions to strike, and
23 I didn't understand when you wanted us to submit that. You
24 talked about submitting page and line numbers for Witness
25 Thompson by November 21st --

1 COMMISSIONER QUICK: Right.

2 MS. DUCHEK: -- and for Witness Bentley by
3 November 22nd. I didn't hear a date on the supplemental
4 pleading. Would the same date be fine, November 21st or
5 22nd?

6 COMMISSIONER QUICK: I think that would be
7 appropriate, yes.

8 MS. DUCHEK: Okay.

9 COMMISSIONER QUICK: Thank you very much.

10 MS. DUCHEK: Two other points --

11 COMMISSIONER QUICK: Okay.

12 MS. DUCHEK: -- of clarification, Commissioner
13 Quick. We had also indicated, the Postal Service had also
14 indicated in its motion, if applicable, that Witnesses
15 Collins and Sherman -- there might be materials that we
16 thought should be struck, and I think that really depends
17 upon -- and maybe for that matter Witness Callow, too --
18 what happens during oral cross examination. Could we have
19 until the end of the week on those witnesses to file any
20 designations from the oral examination that we think fall
21 within the gamut of our motion?

22 COMMISSIONER QUICK: You're talking about this
23 week?

24 MS. DUCHEK: Yes.

25 COMMISSIONER QUICK: What would that be?

1 MS. DUCHEK: The 22nd.

2 COMMISSIONER QUICK: The 22nd.

3 MS. DUCHEK: The same day that we ^{got} did in --

4 COMMISSIONER QUICK: That would be fine.

5 MS. DUCHEK: -- Witness Bentley's --

6 COMMISSIONER QUICK: Yes. That would be fine.

7 MS. DUCHEK: Thank you.

8 And the third point of clarification, I take it
9 from your comments that hearings are proceeding and
10 therefore I was prepared to but I'm hoping it's not
11 necessary for me at the beginning of every hearing to object
12 to entry of the testimony, interrogatory responses, et
13 cetera, since we've made that in our motion. I just didn't
14 want the Commission or any party to think that we had waived
15 our objection to any particular testimony or interrogatory
16 responses.

17 In fact, as we had indicated in our motion, we
18 will be cross examining Ms. Thompson and Mr. Bentley on some
19 materials that, if the motion is granted, we would want
20 stricken; and we would indicate that by the dates you've
21 established, after the fact. But I didn't, by not making the
22 oral objection -- although if you want me to make it, I will
23 -- I didn't want to be held to have waived the objections we
24 set out in our motion.

25 COMMISSIONER QUICK: I think that the fact you're

1 oral objection is -- your written objection is filed will
2 stand as -- so that you won't have to make an oral objection
3 each time.

4 MS. DUCHEK: Thank you, Commissioner Quick. And
5 so that would be our standing objection throughout the
6 course of the proceedings.

7 I think Mr. Hollies had a matter as well. Thank
8 you.

9 MR. HOLLIES: With respect to the outstanding
10 motions to compel, you did inquire of Mr. Costich whether
11 those questions might appropriately be asked on oral cross
12 examination. Is that a ruling on the motions?

13 COMMISSIONER QUICK: I think we'll be getting to
14 that in a minute, actually.

15 MR. HOLLIES: Okay. Well, that may be -- that's
16 fine.

17 I do have one other matter I'd like to address.
18 Unfortunately, although, as you may later conclude,
19 fortunately, Mr. David Rubin is unable to be with us this
20 morning. As I think most of us are aware, he is the lead
21 attorney for the Postal Service in this case, and he and his
22 wife Stephanie Rubin, who has also appeared regularly before
23 this forum, were exhilarated by the birth of a son on ~~Friday~~ ^{Thursday}
24 night last week, an eight-pound four-ounce ~~Mica-Erin~~ ^{Micah Aaron}, and
25 everybody is home and healthy and our thoughts are with

1 them, and I'm sure David in some respects would almost
2 prefer to be here than at home, but he's at home doing the
3 right thing.

4 Thank you.

5 COMMISSIONER QUICK: Well, I hope you will express
6 the Commission's congratulations and best wishes to ~~Mica~~ ^{Uaron} ~~Erin~~ ^{Imicah} and parents, and we'll hope to see Mr. Rubin back,
7 although he probably won't have a whole lot of sleep from
8 now on for the next few months.

10 Mr. Costich, will you introduce your witness,
11 please.

12 MR. COSTICH: Commissioner Quick, I have one
13 preliminary matter as well.

14 COMMISSIONER QUICK: Okay. Go ahead.

15 MR. COSTICH: Concerning the outstanding
16 objections and motions to compel, with respect to Witness
17 Callow, the questions that were put to Witness Callow and
18 which may be put to him orally, depending on the outcome of
19 argument to occur later this morning, he's not going to be
20 particularly informative.

21 Witness Thompson is the witness to whom those
22 questions should be addressed and, in the ordinary course,
23 if the motion to compel had been granted and the
24 interrogatories were to be answered in writing, they would
25 have been redirected to Witness Thompson.

1 So, to the extent possible, I would hope that the
2 Postal Service could pose any of these questions to Witness
3 Thompson during her appearance rather than pose them to Mr.
4 Callow, who will, in all likelihood, defer to Witness
5 Thompson.

6 COMMISSIONER QUICK: Thank you, Mr. Costich.
7 Perhaps your observations will help Postal Service Counsel
8 to proceed here.

9 MR. HOLLIES: If the proper handling of those
10 interrogatories in the first instance was to redirect them
11 to a different witness, that should have been done. It was
12 not; instead, an objection was filed and we filed a motion
13 to compel because, in our view, the grounds for the
14 objection are not exceptionally strong.

15 If that should have been redirected, why didn't
16 they redirect it in the first place? We have not, in fact,
17 been informed before right now that those are questions
18 properly posed to this particular witness. As such, this is
19 something of an ambush for us.

20 MR. COSTICH: With all due respect, Commissioner
21 Quick, the OCA received the Postal Service's motion to
22 compel on Friday, late Friday, as usual. It was at that
23 point that we determined the purpose of the questions and
24 that they were based on a single phrase in Witness Callow's
25 testimony in which he says based on Witness Thompson's

1 testimony, et cetera. We had no way of knowing that was
2 what the Postal Service was after. The questions as posed
3 were contrafactual, hypotheticals and properly objected to.

4 MR. HOLLIES: Perhaps, Commissioner Quick, an
5 appropriate resolution here might be to let those questions
6 be answered in writing. If, for example, Witness Callow is
7 not well prepared to answer those questions and we wouldn't
8 get much out of him orally, we have not, in fact, prepared
9 those questions for Witness Thompson at this time.

10 If the OCA would prefer to redirect those to
11 Witness Thompson and have them answered in writing at a
12 later point in time, that would be fine with us. We would,
13 of course, like to preserve our right to recall her if that
14 should prove appropriate. We would, of course, hope that
15 would not be necessary.

16 COMMISSIONER QUICK: Mr. Costich?

17 MR. COSTICH: To a certain extent, the questions
18 remain objectionable on the basis of specific numbers that
19 have been posed, namely 90 percent hypothetical cost
20 coverage which we know has not occurred, but to the extent
21 that the questions are, in fact, intended to address the
22 bounds of the theories that Witness Thompson has put forth,
23 the OCA would be amenable to responding as questions based
24 on theory rather than specific facts that we know are not
25 true.

1 COMMISSIONER QUICK: In writing?

2 MR. COSTICH: Yes.

3 COMMISSIONER QUICK: All right. Well, let's
4 proceed and when we come to Mr. Callow, we will -- let's
5 proceed and see how much of the -- how many of the questions
6 might be answered orally today. If Postal Service Counsel
7 still has outstanding needs later on, we'll deal with the
8 question at that point.

9 I would suggest, if you can -- I understand it may
10 require a little fast footwork, but if it's possible to ask
11 Witness Thompson some of the questions that you were going
12 to ask, you might do that, since it's been suggested she's
13 the more appropriate witness for this -- to answer these
14 questions.

15 Mr. Costich?

16 MR. COSTICH: Thank you, Commissioner Quick. The
17 OCA calls Pamela A. Thompson.
18 Whereupon,

19 PAMELA A. THOMPSON
20 a witness, was called for examination by counsel for the
21 Office of Consumer Advocate and, having been first duly
22 sworn, was examined and testified as follows:

23 COMMISSIONER QUICK: Proceed.

24 DIRECT EXAMINATION

25 BY MR. COSTICH:

1 Q Would you state your name for the record?

2 A My name is Pamela A. Thompson.

3 Q Ms. Thompson, do you have before you two copies of
4 a document identified as Exhibit OCA-T-200?

5 A Yes, I do.

6 Q Can you identify that document?

7 A It's my testimony.

8 Q Do you have any corrections to make to that
9 document?

10 A Yes, I do. I have three typographical corrections
11 to my testimony at page 13, line 2, insert the word "net"
12 prior to the word "revenues" and change the amount "339.9"
13 to "339.4."

14 The line should now read, "^(Rounded)~~(Round)~~". (If net
15 revenues of \$339.4 are needed, then \$339.4."

16 Q Do you have any other corrections?

17 A Not to my testimony, no.

18 Q With that correction, if you were to testify
19 orally today, would your testimony be the same?

20 A Yes, it would.

21 MR. COSTICH: Commissioner Quick, I'm handing two
22 copies of the identified testimony to the reporter and I
23 would move the admission of OCA-T-200 into evidence.

24 COMMISSIONER QUICK: Are there any objections in
25 addition to the written motion to strike from the Postal

1 Service that I discussed earlier?

2 [No response.]

3 COMMISSIONER QUICK: Hearing none, Ms. Thompson's
4 testimony and exhibits are received into evidence. I direct
5 that it be accepted into evidence and be transcribed into
6 the record at this point.

7 [The direct testimony of OCA
8 Witness Pamela A. Thompson, Exhibit
9 No. OCA T-200 was received into
10 evidence and transcribed into the
11 record.]
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OCA-T-200
Docket No. MC96-3

DIRECT TESTIMONY

OF

PAMELA A. THOMPSON

ON BEHALF OF

THE OFFICE OF THE CONSUMER ADVOCATE

SEPTEMBER 30, 1996

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1 DIRECT TESTIMONY OF

2 PAMELA A. THOMPSON

3 STATEMENT OF QUALIFICATIONS

4

5 My name is Pamela A. Thompson. I am a Postal Rate and
6 Classification Specialist for the Office of the Consumer
7 Advocate (OCA). I have been employed at the Postal Rate
8 Commission since March 1990. I have testified previously
9 before this Commission in Docket Nos. R90-1, MC93-1, R94-1 and
10 MC95-1. My testimony in Docket No. MC95-1 proposed a Courtesy
11 Envelope Mail (CEM) rate category and a 12 cent per piece
12 discount for qualifying First-Class single-piece courtesy
13 reply envelopes. My testimony in Docket No. R94-1 proposed a
14 new methodology for the recovery of prior years' losses. I
15 also proposed a change in the amount of, and the allocation
16 methodology for, a contingency provision. In Docket No.
17 MC93-1, my testimony reviewed the Postal Service's cost
18 coverage for the new BSPS classification proposal. In Docket
19 No. R90-1, my testimony proposed the adoption of two
20 discounted single-piece rate categories within First-Class
21 Mail. A three-cent discount was proposed for Courtesy
22 Envelope Mail (CEM), an automation-compatible prebarcoded

1 envelope. The second category, Automation Compatible Envelope
2 (ACE), consisted of mail pieces to be produced and sold by the
3 Postal Service as a specialized form of the stamped envelope
4 products currently offered by the Postal Service.

5 Prior to my employment with the Postal Rate Commission, I
6 was an Assistant Controller for Chemical Waste Management
7 (CWM). My responsibilities included management of a regional
8 accounts payable department and reviewing and reporting the
9 financial performance of a midwestern division of the company.

10 Prior to my employment with CWM, I was a Staff Business
11 Planner for a division of International Business Machines
12 (IBM). At IBM, I worked principally in the areas of strategic
13 planning, pricing and implementation.

14 I received my MBA from Wright State University in Dayton,
15 Ohio, in 1979. I received a BA in 1975 from the Christopher
16 Newport College of the College of William and Mary. I have
17 taken additional computer science courses from the University
18 of Colorado.

1 I. PURPOSE AND SCOPE OF TESTIMONY

2 The purpose of this testimony is to show that the Postal
3 Service is proposing to misuse the classification reform
4 framework to target a few special services for price
5 increases. Other than insuring that targeted special services
6 cover their costs, the Postal Service has not justified its
7 request for additional net revenues.

1 II. THE POSTAL SERVICE IMPROPERLY PROPOSES TO ABANDON REVENUE
2 NEUTRALITY IN ITS CLASSIFICATION REFORM EFFORTS AND
3 UNFAIRLY AND INEQUITABLY TO TARGET SELECTED SPECIAL
4 SERVICES FOR RATE INCREASES
5

6 The Postal Service's phased approach to classification
7 reform has allowed interested parties to focus on specific
8 issues. Since both Docket Nos. MC95-1 and MC96-2 were net
9 revenue neutral, the Postal Service was able to focus the
10 classification reform initiatives on structural changes while
11 limiting debates on inter-class cost coverages.¹

12 Prior to Docket No. MC96-3, the proposed rates for the
13 reformed subclasses were designed to provide the same test
14 year contribution to institutional costs as was projected by
15 the Commission in Docket No. R94-1.² Classification reform
16 was not intended to generate new revenues

17 nor [be] an opportunity to challenge, change, or
18 improve on the Commission's conclusions drawn from
19 the record in Docket No. R94-1. . . . [T]he Postal
20 Service is not seeking to increase or decrease

¹ Docket No. MC96-2, Request of the United States Postal Service for a Recommended Decision on Further Classification Reform of Preferred Rate Standard Mail and Periodicals at 5.

² Id.

1 institutional cost contributions beyond the levels
2 recommended by the Commission and approved by the
3 Governors in Docket No. R94-1.³

4
5 In April 1996, the Postal Service filed Docket No.

6 MC96-2, the second classification reform initiative⁴ and asked
7 the Commission to follow the same principles and methodologies
8 espoused in Docket No. MC95-1.⁵ Two months after filing its
9 Docket No. MC96-2 Request, the Postal Service filed the third
10 classification reform initiative, Docket No. MC96-3. Docket
11 No. MC96-3 abandons the earlier classification reform goal of
12 net revenue neutrality.⁶ The Postal Service acknowledges the
13 change in philosophy:

14 This filing is unusual in that it would have
15 the effect of increasing net revenue for the Postal
16 Service, outside of an omnibus rate proceeding.⁷

³ Id. at 4-5.

⁴ Docket No. MC96-1 was a request for an experimental automation rate category and is not considered a classification reform initiative for purposes of my testimony.

⁵ Docket No. MC96-2, Request of the United States Postal Service for a Recommended Decision on Further Classification Reform of Preferred Rate Standard Mail and Periodicals at 3.

⁶ For further discussion of changes in classification reform philosophy, see also Tr. 2/160-61, 215-16, and 221-23.

⁷ Docket No. MC96-3, Request of the United States Postal Service for a Recommended Decision on Special Service Changes at 3.

1 The departure from the earlier philosophy is due in part
2 to a new policy of the Board Of Governors to restore equity;
3 revenues of \$339.4 million are purportedly needed to help
4 achieve this goal.⁸ The Postal Service admits, as does
5 witness Lyons, that the Postal Service's negative equity
6 position was not caused by any one class or subclass of mail.⁹
7 It certainly was not caused by the special services targeted
8 for rate increases by the Service. Therefore, it is unfair
9 and inequitable to depart from the earlier classification
10 reform policy of net revenue neutrality by burdening special
11 services alone with additional non-attributable net revenue
12 requirements.

⁸ USPS-T-1 at 6-9.

⁹ Tr. 2/146-148.

1 III. THE POSTAL SERVICE'S RATIONALE FOR REQUESTING ADDITIONAL
2 NET REVENUES IS FATALY FLAWED
3

4 The Docket No. MC96-3 classification reform initiative
5 includes a net revenue request of \$339.4 million, ostensibly
6 based upon two Postal Service objectives. One objective is
7 established by Board of Governors Resolution No. 95-9, which
8 calls for equity restoration, and the other is the achievement
9 of general Postal Service financial goals.¹⁰
10

11 A. The Equity Restoration Objective Is Being Attained
12 Without a Rate Increase
13

14 Board of Governors Resolution No. 95-9 states that the
15 Postal Service shall plan for
16 cumulative net income, in the period since
17 implementation of the rates adopted in the most
18 recent omnibus rate proceeding, to *equal or exceed*
19 *the cumulative prior years' loss recovery target* for
20 the same period.¹¹

¹⁰ USPS-T-1 at 6.

¹¹ USPS-LR-SSR-112 (emphasis in the original).

1 Board of Governors Resolution No. 95-9 directs the Postal
2 Service to restore equity through recovery of prior years'
3 loss (RPYL). A comparison of the RPYL provision established
4 by the Commission in Docket No. R94-1 and the Postal Service's
5 net income for fiscal year (FY) 1995 demonstrates that the
6 RPYL provisions for FY 95 and FY 96 are fully funded.¹²

7 Postmaster General Runyon has stated,

8 Nationwide, we are squarely on track to finish the
9 year with another billion dollar-plus net income.
10 That would be the Postal Service's second highest
11 net income in history, second only to last year's
12 record \$1.8 billion.¹³

13 To date, the Postal Service estimates its FY 96 net income to
14 be between \$1.2 and \$1.5 billion.¹⁴ Consequently, the sum of

¹² Docket No. R94-1 was the most recent omnibus rate proceeding. The Commission provided for annual RPYL in the amount of \$936.2 million. PRC Op. R94-1, para. 2071. The 1995 Annual Report of the Postmaster General at 41, indicates that net income was \$1.8 billion. The Postal Service's FY 95 net income provided sufficient funding for the RPYL provision for FY 95 and \$834 million towards FY 96 requirements (See OCA/USPS-74).

¹³ Remarks by Postmaster General Marvin Runyon at the Monthly Meeting of the Postal Service Board of Governors, Detroit, Michigan, August 6, 1996.

¹⁴ Transcript of Proceedings of Board of Governors Meeting, September 10, 1996, at 17.

1 FY 95 and FY 96 net revenues is sufficient to fund fully the
2 RPYL provision through FY 97 and into FY 98.¹⁵ The Postal
3 Service's financial performance, has fully satisfied, and even
4 exceeded, the Board of Governors' policy objective of equity
5 restoration. Michael J. Riley, Chief Financial Officer of the
6 Postal Service, has stated,

7 The budgeted income [for FY 97] is a positive
8 \$55 million. It meets Management's goals, and it
9 exceeds the requirements of the Board's prior year
10 loss recovery policy by a positive \$648
11 million. . . .

12 Based on the estimated \$1.2 billion surplus
13 projected for Fiscal '96, we will have continued the
14 reduction of cumulative losses. The \$55 million net
15 income budgeted for '97 continues to reduce the
16 cumulative losses and keeps us about \$700 million
17 ahead of the Board Resolution 95-9 through the end
18 of Fiscal '97.¹⁶

19 Claiming that special service fee increases are needed to meet
20 the Board of Governors Resolution No. 95-9 policy objective is
21 obviously baseless.

¹⁵ See OCA/USPS-74.

¹⁶ Transcript of Proceedings of Board of Governors
Meeting, September 10, 1996, at 18-19.

1 B. The Postal Service's General Financial Policy Goals Fail
2 To Justify Increased Net Revenue
3

4 Postal Service witness Lyons identifies general financial
5 policy goals as a primary reason for requesting additional net
6 revenues. The financial policy goals mentioned in his
7 testimony are controlling costs, generating sales, maintaining
8 current rates and fees (with the exception of those targeted
9 in Docket No. MC96-3) for longer periods of time, moderating
10 the magnitude of a future rate increase, and seeking demand-
11 oriented price adjustments previously deferred.¹⁷ Though cost
12 containment and increased sales volume affect net income,
13 these worthy goals can be accomplished without raising rates,
14 and my testimony does not address them.

15 1. "Stable" Rates Should Not Be Obtained by Means Of
16 Unfair and Inequitable Ratemaking
17

18 In March 1996, Postmaster General Runyon stated,

19 The officers have committed to a stringent program
20 to turn our projected loss for next year [1997] into
21 a \$100 million net income. This will allow us to
22 keep rates stable through 1997. . . . Our long-term

¹⁷ USPS-T-1 at 3 and 6.

1 goal is to keep prices where they are as long as
2 possible¹⁸

3
4 The August 30, 1996, AMMA bulletin states that Postmaster
5 General Runyon does not foresee a rate increase before 1998
6 and possibly beyond. During oral cross-examination, Postal
7 Service witness Lyons stated,

8 the rates we have right now, . . . are going to be
9 in effect the Postmaster General said at least
10 through 1998.¹⁹

11 If the Postal Service's current request for additional net
12 revenues is approved, then some rates will necessarily change.
13 Therefore, there will be no rate stability for those special
14 services subject to Docket No. MC96-3 rate increases. Postal
15 Service witness Lyons resolves confusion over what constitutes
16 stable rates by identifying basic First-Class rates as the
17 determinant.²⁰ Since this docket does not impact First-Class
18 rates, witness Lyons says that increasing rates for select

¹⁸ Testimony Scheduled for Delivery by Postmaster General Marvin Runyon Before the House Appropriations Subcommittee on Treasury, Postal Service, and General Government, Washington, DC, March 27, 1996.

¹⁹ Tr. 2/149.

²⁰ Tr. 2/175.

1 special services is consistent with the stable rate objective.
2 However, sparing all other subclasses and services rate
3 increases at the expense of a few, select, special services is
4 unfair and inequitable. Approval of the Postal Service's
5 Docket No. MC96-3 request for increased net revenues fosters a
6 selective pricing philosophy. Selectively burdening classes
7 or subclasses of mail with non-attributable net income
8 requirements violates the principles of fairness and equity
9 under 39 U.S.C. § 3622(b)(1) and § 3623(c)(1). The choice of
10 a few special services as the source of additional revenue was
11 entirely coincidental and thus capricious.

12

13 2. Moderating Future Rate Increases for Most Classes
14 Should Be Accomplished in an Omnibus Rate Case and
15 Does Not Justify Selective Price Increases

16

17 Filing an omnibus rate case does not automatically result
18 in significant rate increases. If the Postal Service were to
19 file an omnibus rate request that sought additional net
20 revenues of \$339.4 million, average rate increases would be
21 minimal. For example, if the First-Class mailstream alone had
22 to provide \$339.4 million in additional net revenues, the

1 average rate increase would be only \$0.003 per piece
 2 (rounded). (If ^{net} revenues of \$339.⁴~~9~~ are needed then \$339.⁴~~9~~
 3 million / 98,201.390 million = \$0.003. See also USPS-T-1 at
 4 8.)²¹ If all classes and services were burdened with providing
 5 the \$339.4 million, the average impact on postal rates would
 6 be minuscule. Even if First-Class letters were excluded from
 7 a general rate increase (as seems to be the policy expressed
 8 by witness Lyons), the increase for all other subclasses would
 9 average \$0.004 per piece (rounded).²² Restricting the net
 10 revenue request to select special services, on the other hand,
 11 causes some special service fee increases to be very large.
 12 Therefore, the Postal Service's strategy for increasing net
 13 revenues is unfair and unrelated to any legitimate financial
 14 goal.

²¹ USPS-T-1, WP E at 1. If First-Class non-presort letter volumes were tasked with providing \$339.4 million, the average rate increase would be \$0.006189 (\$339.4 million / 54,841.077 million pieces).

²² \$339.4 / (184,625.794-54,841.077-34,984.069-3,199.666). Volumes from USPS-T-1 WP E at 1-2.

1 3. Seeking Price Adjustments Previously Deferred Does
2 Not Justify Selective Rate Increases

3
4 During Docket No. R94-1 proceedings, interested parties
5 reviewed and debated all the data and information available,
6 and all factors of the Postal Reorganization Act (Act) were
7 considered when rates and fees were established.

8 Postal Service witness Lyons testifies that demand-
9 oriented price adjustments previously deferred should now be
10 addressed.²³ The Postal Service chose to defer the pricing
11 adjustments. Isolating one class or subclass of mail for
12 unfavorable treatment is discriminatory and deprives these
13 mailers of the fairness and equity due them. Approval of the
14 Postal Service's current request for selective and unjustified
15 price adjustments for the purpose of increasing net revenues
16 encourages similar future filings whose purpose is divide-and-
17 conquer ratemaking.

²³ USPS-T-1 at 6.

1 IV. RATE INCREASES SHOULD BE LIMITED TO THOSE CLASSES OR
2 SUBCLASSES OF MAIL FAILING TO COVER THEIR COSTS
3

4 Resource constraints may cause the Postal Service to
5 defer an omnibus rate request while classification reform
6 initiatives are being pursued. Changes such as cost increases
7 and volume shifts can result in classes and subclasses of mail
8 having insufficient revenues to cover costs. If a
9 classification initiative is filed and the revenues generated
10 by the class or subclass of mail undergoing reform fail to
11 cover costs, then rate increases may be appropriate. The rate
12 increases should be designed to be contribution neutral.
13 Otherwise, favored classes and subclasses of mail (or even
14 individual mailers) may experience infrequent rate increases,
15 while less favored classes and subclasses of mail could be
16 subject to frequent rate increases. Rate increases for the
17 purpose of increasing net revenues should be fairly allocated
18 to all classes and services in an omnibus rate proceeding.

1 V. CONCLUSION

2 The Postal Service has not shown any need for increased
3 net revenues. This classification reform initiative unjustly
4 selects special services to bear the brunt of an apparently
5 ever-escalating revenue requirement. Accepting the Postal
6 Service's pricing proposal encourages future "classification"
7 reform initiatives to incorporate new net revenue requirements
8 so that politically unpleasant general rate increases
9 affecting powerful special interests can be deferred
10 indefinitely. By means of selective price increases, the
11 Postal Service will be able to target some classes or
12 subclasses of mail for unfair and inequitable treatment, while
13 shielding other classes from such effects.

14

1 COMMISSIONER QUICK: Is your witness now available
2 for cross examination?

3 MR. COSTICH: Yes, Commissioner Quick.

4 COMMISSIONER QUICK: Ms. Thompson, have you had an
5 opportunity to examine the packet of designated written
6 cross examination that was made available to you earlier
7 this morning?

8 THE WITNESS: Yes, I have.

9 COMMISSIONER QUICK: If these questions were asked
10 of you today, would your answers be the same as those you
11 previously provided in writing?

12 THE WITNESS: I have three typographical
13 corrections to make.

14 COMMISSIONER QUICK: Will you please note those?

15 THE WITNESS: The first one is to USPS/OCA-T-200-
16 2, page 2 of the response, the first sentence of the second
17 paragraph, please delete the second "the." The line should
18 read, "The Postal Service's departure from its own
19 classification."

20 The second correction, USPS/OCA-T200-12B, ninth
21 line from the bottom, please change response to respond.
22 The line should read, "Would respond to a nonresident box
23 fee."

24 The final correction, USPS/OCA-T400-21, third page
25 of the response, fifth line from the bottom, please change

1 94-1 to R94-1. The line should read "out of line" with the
2 Commission's Docket Number R94-1 recommended.

3 COMMISSIONER QUICK: Two copies of the corrected,
4 designated written cross examination of witness Thompson
5 will be given to the Reporter and I direct that it be
6 accepted into evidence and transcribed in the record at this
7 point.

8 Have they already been given?

9 MR. COSTICH: I believe you have them,
10 Commissioner Quick.

11 COMMISSIONER QUICK: All right, well -- we will
12 provide them to the Reporter then.

13 [The Designated Written Cross-
14 Examination of OCA Witness Pamela
15 A. Thompson was received into
16 evidence and transcribed into the
17 record.]

18
19
20
21
22
23
24
25

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Special Services Fees and Classifications

Docket No. MC96-3

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF THE OFFICE OF THE CONSUMER ADVOCATE
WITNESS THOMPSON
(OCA-T200)

The parties listed below have designated answers to interrogatories directed to witness Thompson as written cross-examination.

Party

Answer To Interrogatories

Douglas F. Carlson

USPS: Interrogatories T200-1-17
USPS Interrogatory T400-21
redirected to witness Thompson

U. S. Postal Service

USPS: Interrogatories T200-1-17
USPS: Interrogatory T400-21
redirected to witness Thompson
USPS: Interrogatory T200-33

Respectfully submitted,



Margaret P. Crenshaw
Secretary

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T200-1-9

USPS/OCA-T200-1.

(a) Please confirm that the Postal Service Board of Governors Resolution No. 95-9 does not limit the amount of net income to be earned by the Postal Service but rather states that net income may equal or exceed the cumulative prior years' loss recovery target prescribed by the Resolution. If you do not confirm, please explain what amount net income is limited to by the Resolution and how you determined the amount of the limit.

(b) Please confirm that the transcript of the Board of Governors meeting that you quote on page 9 of your testimony indicates that the Board was informed of the fact that Postal Service actual and planned net income exceeds the amount required by Board of Governors Resolution No. 95-9. If you cannot confirm, please explain why.

A. (a)-(b) Confirmed. Thus, the terms of the resolution will be met in both FY 96 and FY 97 without any rate increases.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T200-1-9

USPS/OCA-T200-2. On page 5 lines 10-12 of your testimony you state that "Docket No. MC96-3 abandons the earlier classification reform initiative goal of net revenue neutrality." On page 6, lines 8-12, you claim that "it is unfair and inequitable to depart from the earlier classification reform policy of net revenue neutrality by burdening special services alone with additional non-attributable net revenue requirements."

(a) In your opinion, would the proposals made by the Postal Service in this case have been more fair and equitable if Docket Nos. MC95-1 and MC96-2 had never been filed? Please explain your answer fully.

(b) In your opinion, must all future classification cases be based on the philosophy of net revenue neutrality espoused in Docket No. MC95-1? Please explain your answer fully.

A. (a) You appear to miss the point of my testimony. The Postal Service proposed classification reform principles and methodologies in Docket No. MC95-1.

In this Request, the Postal Service proposes to establish this framework as the basis for current and future classification reforms by restructuring the DMCS into four classes: Expedited Mail, First-Class Mail, Standard Mail, and Periodicals. (Emphasis added.)

Request of the United States Postal Service for Recommended Decisions on Classification Reform of First-, Second-, and Third-Class Mail, at 2. Prior to Docket No. MC96-3, the Postal Service proposed rates for the reformed subclasses that were designed to provide the same test year contribution to institutional costs as was projected by the Commission in Docket No. R94-1. Docket Nos. MC95-1 and MC96-2 used FY 95 as the test year. Docket No. MC96-3 does not; it uses FY 96 as the test year.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T200-1-9

CONTINUATION OF ANSWER TO USPS/OCA-T200-2:

The Docket No. MC96-3 Request of the United States Postal Service for a Recommended Decision on Special Service Changes, hereafter, Docket No. MC96-3 Request, proposes classification reform changes to a select few special services. In its Docket No. MC96-3 Request at 3, the Postal Service changes its own classification reform goal and states,

This filing is unusual in that it would have the effect of increasing net revenue for the Postal Service, outside of an omnibus rate proceeding.

The Postal Service's departure from ~~the~~ its own classification reform framework explicitly designed for current and future classification reforms in the midst of classification reform is discriminatory, arbitrary and capricious.

(b) No, not all future classification cases must be net revenue neutral. However, the Postal Service must be consistent in the application of the framework used when it elects to approach classification reform initiatives on a piecemeal basis. If the Postal Service had wanted to use classification reform to generate revenues, it should have done so from the beginning. If an unforeseen need for new revenue in FY 97 arose in the midst of

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T200-1-9

CONTINUATION OF ANSWER TO USPS/OCA-T200-2:

classification reform, the Postal Service should have filed a rate case and explained why it needed new revenue in FY 97. Sparing its largest customers rate increases in MC95-1 and MC96-3 under the cloaks of "revenue neutrality" and "adjustments ... previously deferred" has the appearance of favoritism.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T200-1-9

USPS/OCA-T200-3. Under the omnibus rate case scenarios you postulate on pages 12-13 of your testimony (where \$339.4 million of revenue requirement is spread over all classes of mail or all classes except First Class Mail), could the first two goals for this case articulated by witness Lyons on pages 2 and 3 of USPS-T-1 be accomplished for the special services which are the subject of this docket? If your answer is other than no, please explain how these goals could be accomplished.

A. To insure clarity, I will identify what I understand to be the first two goals articulated by witness Lyons on pages 2 and 3 of his testimony.

First, the pricing and classification proposals are designed to place the services and products on a more economically rational, businesslike basis. . . .

Second, we have reviewed the service offerings themselves to see what improvements could be made to make them more useful to the customer, and both easier to administer and understand.

I do not believe that either goal is precluded from being accomplished in an omnibus rate case. To my knowledge, there is no restriction on the classification changes requested in an omnibus rate case. The examples provided at pages 12-13 of my testimony are provided to illustrate what the magnitude of an average rate increase would be, if the Postal Service chose to recover the additional net revenues through an omnibus rate case. Postal Service witness Lyons states in his testimony at 6, the following:

In the interest of mitigating the impact of general increases on its customers, the Postal Service would like to moderate the pace toward the eventual

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T200-1-9

CONTINUATION OF ANSWER TO USPS/OCA-T200-3:

need to increase overall revenues as a result of rising cost levels. . . . The infusion of revenues from these sources would contribute to the Postal Service's general financial policy goals, including the Board of Governors' concern for restoring equity. The same logic could also apply to future proposals for new products or classification that would create additions to total revenues, outside of an omnibus rate case, and that would expand contributions to institutional costs.

If the Postal Service needed \$339.4 million additional net revenues, I cannot think of a reason why an omnibus rate case could not be filed and still achieve witness Lyons' first two goals. However, in an omnibus rate case, it is less likely that one mail class or subclass would be targeted for a rate increase while other classes or subclasses of mail escaped with stable rates.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T200-1-9

USPS/OCA-T200-4. At the bottom of page 4 and the top of page 5 of your testimony, you quote selected portions of statements from the Postal Service's Request in Docket No. MC95-1 in order to characterize the intent of "classification reform." Please confirm that the statements of which you have quoted portions were limited in scope to clarifying the intent of the Request in Docket No. MC95-1, and did not purport to address generic "classification reform." If you cannot confirm, please explain fully.

A. Not confirmed. Please see the response to
OCA/USPS-T200-2(a).

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T200-1-9

USPS/OCA-T200-5.

(a) Please confirm that most (if not all) classes of mail and types of services face some type of competition, in the sense that users usually have some alternatives available to perform the same function performed by the class of mail or type of service? If you cannot confirm, please explain fully.

(b) Please confirm that the relationships between a service and the potential alternatives provided by competitors, in terms of price, quality, convenience, effectiveness, etc., are generally considered relevant in pricing that service. If you cannot confirm, please explain fully.

(c) Please confirm that the relationship between a postal service and the potential alternatives provided by competitors are specifically relevant in postal ratemaking. If you cannot confirm, please explain fully, including why such factors should not be reflected in consideration of 39 U.S.C. §§ 3622(b)(2), (4), and (5).

(d) Please confirm that the relationships between postal services and the potential alternatives provided by competitors are not necessarily static, and that the pace of change in the markets for postal products may vary considerably across postal products. If you cannot confirm, please explain fully.

(e) Please confirm that developments in the market for a particular postal product, independent of any general cost level increases or any specific changes in attributable costs for that product, may justify adjustments in the rates or fees for that product, under circumstances in which no omnibus rate changes are required. (Adjustments can be thought of as "justified" if, had the market developments in question occurred prior to the last general rate case and been considered during such a case, the result would or could have been different rates than those recommended.) If you cannot confirm, please explain fully.

A. (a) and (d) I cannot confirm. I have not conducted any market analysis, nor am I aware of any published Postal Service analyses that examine the interrelationships existing between postal products or between postal products and potential alternatives. However, your hypothetical is possible.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T200-1-9

CONTINUATION OF ANSWER TO USPS/OCA-T200-5:

(b)-(c) Confirmed.

(e) The scenario you present was not necessary for me to consider for purposes of my testimony, and I do not believe it is pertinent. If the additional information you hypothesize had been available in a prior general rate case, then all rates would likely have been different. In any event, I would expect the net revenue consequences of such adjustments to be minuscule. Otherwise, a general rate case would be in order. For example, if Priority rates were adjusted on the basis of new information so as to forgo \$1 billion of net revenue, I would expect the Postal Service to seek other adjustments as well. However, if single-piece third class were brought up to 100 percent cost coverage, I would not expect to see any other adjustments.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T200-1-9

USPS/OCA-T200-6. Please consider the following hypothetical. A new analysis conducted by the Postal Service shows that, in light of a variety of market considerations, users of one particular postal service are getting an extraordinarily "good deal," and that higher rates for that service could be implemented that would be fully in accord with the ratemaking factors of the Act. Assume that is not open to question that the higher rate levels suggested by the analysis comport with all factors of the Act, including fairness and equity. Because the Postal Service does not plan to file a general rate case in the immediate future, however, it has two options. Option One is to act immediately to bring the rates for this product in line with demand by filing a case seeking rate increases limited to that product. Option Two is to leave the rates unchanged until the next general rate case, at which time the rates will be increased in light of the new analysis.

(a) Please confirm that, under this hypothetical, the users of the service have done nothing to entitle them to continuation of this "good deal." If you cannot confirm, please explain fully.

(b) Please confirm that continuation of the "good deal" deprives users of all other services of a potential increased contribution to net revenue that could be provided by users of the service in question. If you cannot confirm, please explain fully.

(c) In your opinion, under this hypothetical, should the Postal Service be allowed to pursue Option One -- selective, but justified, price adjustments? Please explain your answer fully.

(d) Further assume that the new market analysis probably could have been conducted at the time of the last general rate increase if attention had been focused in that direction, but was not. Would this additional assumption change your answer to any of the previous subparts? Please explain any necessary changes fully.

A. (a)-(b) Not confirmed. This hypothetical is not plausible. A determination of fairness and equity requires a comparison of all relative cost coverages. You have assumed that such a comparison will not reveal any other rates that need

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T200-1-9

CONTINUATION OF ANSWER TO USPS/OCA-T200-6:

adjusting. In addition, your hypothetical only states that "users of one particular postal service are getting an extraordinarily 'good deal,'" It says nothing about whether or not users of the service have done anything to entitle them to the continuation of this "good deal."

For purposes of illustration, the following scenario is provided. As Postal Service radio advertisements have stated, First-Class mailstream users get an extremely "good deal" on the price of a \$0.32 First-Class stamp especially when compared to the cost of similar service in other countries. It does not follow, however, that First-Class mailstream users have done nothing to entitle them to the "good deal."

In your hypothetical, users may indeed be getting an extraordinarily "good deal," although in my view it is those whose rates are near or below cost who are getting the best deal. However, your interrogatory implies that all postal products should pay profit-maximizing prices. Otherwise, some users would always be "deprived" of potential increased contributions to net revenue. Specifically, in this case, certain special services are being deprived of the contribution that might be available if

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T200-1-9

CONTINUATION OF ANSWER TO USPS/OCA-T200-6:

First Class's "good deal" were eliminated.

(c) No. See the response to USPS/OCA-T200-6(a-b).

(d) No. Omnibus rate cases allow all evidence and testimony to be presented and examined. Rates are based upon the testimony and evidence presented. If one party fails to focus on an area during the omnibus rate case, then it elected to do so. Therefore, the party must accept the consequences of its actions, or initiate a new omnibus rate case so that all evidence and testimony can be presented, examined, and rates re-evaluated. To do otherwise, would effectively allow one party to pick and choose what evidence is presented; when the evidence is presented; and what rates are manipulated.

Consider recent history. The Postal Service requested an across-the-board rate increase in R94-1. As a result, certain cost coverages that were "out of line" did not get adjusted. The Postal Service then created a principle of "net revenue neutrality" in MC95-1. As a result, certain cost coverages that were still "out of line" did not get adjusted. Finally, the Postal Service abandoned the recently created principle of "net

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T200-1-9

CONTINUATION OF ANSWER TO USPS/OCA-T200-6:

revenue neutrality" in a severely restricted "classification" case, MC96-3. As a result, certain "out of line" cost coverages remain unadjusted. The potential for arbitrary and discriminatory ratemaking is enormous under the assumptions of your question.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T200-1-9

USPS/OCA-T-200-7. Please refer to page 14 of your testimony.

(a) Would it be fair to equate your testimony on this page with a "sporting" theory of postal ratemaking, in which parties participate in a designated "game" known as an omnibus rate case, and it is thus "unsporting" of the Postal Service to try to alter the results of that game to the detriment of some of the "winners," whether they deserved to win or not? Please explain your answer fully.

(b) Is your objection to what you refer to as "divide-and-conquer ratemaking" based on a perceived inability of the Commission to distinguish between "justified" selective interim rate adjustments and "unjustified" ones? Please explain your answer fully.

(c) In your view, whose interests would be served by a ratemaking process in which beneficial interim rate adjustments could be identified, but could not be implemented under the theory that either they should have been proposed in the last omnibus rate case, or they should wait until the next omnibus rate case? Please explain your answer fully. In particular, please identify any objectives of regulation (e.g., the objective stated by Prof. Baumol -- Docket No. R84-1, USPS-T-5, pgs. 8-11 -- and many others, such as Alfred Kahn in this 1970 treatise The Economics of Regulation at page 17, that regulation should act as a surrogate for the free market forces) that you believe would or would not be enhanced by such a constraint.

A. (a)-(c) It seems disrespectful of Congress to liken the postal ratemaking process to either a "sport" or a "game." My testimony at 14 points out that the Postal Service established a classification reform framework in MC95-1. In its Docket No. MC95-1 Request, the Postal Service stated that the classification reform guidelines were for the current and future classification reform initiatives. See my response to USPS/OCA-T200-2(a). Prior to completion of the classification reform initiative, the

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T200-1-9

CONTINUATION OF ANSWER TO USPS/OCA-T200-7:

Postal Service altered the framework, which fostered inequitable treatment of mail classes and subclasses. Not all mail classes and subclasses are being treated to the same goal of net revenue neutrality. The Postal Service's actions are discriminatory and unexplained.

Apparently, you misinterpret my use of the phrase "divide-and-conquer ratemaking." I am referring to the Postal Service's presenting limited rate cases with the purpose of selectively targeting a mail class or subclass for a rate increase, in the expectation that non-targeted mailers will leave well enough alone. The Postal Service's actions allow it effectively to pick and chose who is at risk of rate increases and who benefits from stable rates. Recent history would suggest that the Postal Service believes that selecting mail categories for "justified selective" rate increases is a "management decision," and that the Commission has no business second-guessing the Postal Service on what is "justified" or "unjustified."

Finally, my understanding of the efficiency rationale for regulation is that it is supposed to produce competitive market outcomes, not profit-maximizing outcomes. See response of OCA witness Sherman to USPS/OCA-T100-7(c).

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T200-1-9

USPS/OCA-T200-8. Please refer to page 15, lines 8-12, where you state:

If a classification initiative is filed and the revenues generated by the class or subclass of mail undergoing reform fail to cover costs, then rate increase may be appropriate. The rate increases should be designed to be contribution neutral.

(a) Please confirm that if a subclass has costs exceeding revenues (i.e., negative contribution), any rate increase designed to correct that situation cannot be contribution neutral. If you cannot confirm, please explain fully.

(b) Was it your intent to suggest that the rate increases should be designed to yield the contribution target for the subclass initially set in the last general rate case? If not, please explain fully.

A. (a) Not confirmed. Going from negative contribution to zero contribution obviously represents an increase in net income. However, in any given year, there are likely to be categories of mail whose cost coverage is too high relative to the Commission's most recent recommendation. Such categories could receive rate reductions designed to neutralize the net revenue effect of any necessary rate increases. For example: If COD rates are below costs and money order rates recover more than was recommended by the Commission in Docket No. R94-1, then a classification case could be designed to bring both rates "in line" and be contribution neutral. COD rates could be raised so that revenues equaled costs. Money order rates could be lowered to bring its rates more "in line" with the Commission's Docket No. R94-1

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T200-1-9

CONTINUATION OF ANSWER TO USPS/OCA-T200-8:

recommendation. The overall effect could be contribution neutral
— no change in the net contribution.

(b) No. Docket No. R94-1 was an unusual omnibus rate case in that it requested an across-the-board rate increase and cost coverages were based upon a FY 95 test year. Docket No. MC96-3 uses FY 96 as its test year. Therefore, it is inappropriate to assume that the cost coverages established in Docket No. R94-1 are appropriate for Docket No. MC96-3. Even if R94-1 cost coverages need to be attained in FY 96, that is not what the Service is doing in MC96-3. There are more egregious situations crying out for adjustment than the special services targeted in MC96-3. This contradicts any claim by the Postal Service that it is merely making needed adjustments in cost coverages.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T200-1-9

USPS/OCA-T200-9. Please refer to page 12 of your testimony, where you claim that the "choice of a few special services as the source of additional revenue was entirely coincidental and thus capricious."

(a) Is it your testimony that, out of all the classes of mail and types of services, the special services which are the subject of this case were chosen entirely at random? If not, what do you mean by the phrase "entirely coincidental." Please explain your answers fully.

(b) Is it your testimony that the determination to seek additional net revenue in this filing was made **before** any analysis of which special service could be improved and thus should be included within the scope of the request for a recommended decision? If so, what is the basis for this testimony? If not, would you agree that such analysis makes the statement quoted above inapposite? Please explain your answers fully.

A. (a)-(b) No. My point is precisely the opposite. Extra revenue is being sought solely from those special services that had the bad luck to be ready for reclassification. That is not a rational basis for choosing how to allocate a new revenue burden. (Of course, the new revenue burden is also entirely coincidental, being the accidental result of raising rates for the bad luck special services, rather than the result of a rational process that explained why the Service needed \$340 million.)

If Docket No. MC96-3 is really a classification case for a few special services, then raising rates only for those special services is opportunistic revenue enhancement for the benefit of other subclasses, whose cost coverages for FY 96 are permitted to remain below Docket No. R94-1 recommendations. If this case is instead a case for fixing cost coverages that have fallen out of

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T200-1-9

CONTINUATION OF ANSWER TO USPS/OCA-T200-9:

line, then why hasn't the Postal Service proposed fixing
Priority, Single Piece Third, Bound Printed Matter, Special Rate
Fourth, Cash on Delivery (COD), and Money Orders?

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T200-10-17

USPS/OCA-T200-10. Please refer to your response to interrogatory USPS/OCA-T200-1, where you state that "the terms of [Resolution No. 95-9] will be met in both FY 96 and FY 97 without any rate increases."

- (a) Please refer to the Attachment to OCA/USPS-74 and confirm that the FY 96 and 97 net incomes are estimates. If you do not confirm please explain.
- (b) Please confirm that it is possible for net revenue to fall short of estimates. If you do not confirm please explain why this is not possible.
- (c) Assume the Postal Service falls short of the net revenue amounts estimated in the Attachment to OCA/USPS-74. Under such a scenario is it possible the Postal Service would need additional net revenue in FY 1997 in order to meet the Board of Governors equity restoration target through FY 97? If this is not possible please explain why?

A. (a). Confirmed.

(b)-(c). Anything is possible, including the possibility that net revenue exceeds estimates. However, for FY 96, Postmaster General Runyon stated at the October 8, 1996, Board of Governors meeting, "We now expect to end the fiscal year with a \$1.5 billion net income, second best in postal history." If the Postal Service believes that additional net revenues will be needed in order to eliminate any possibility of failure to meet the Board of Governors' equity restoration target for FY 97, then the Postal Service should specify how much additional net revenue it needs and file an omnibus rate case.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T200-10-17

CONTINUATION OF ANSWER TO USPS/OCA-T200-10:

There is no basis for targeting certain special services to pay what amounts to an insurance premium designed to relieve the Postal Service of the risk that overall net revenues fall below projections in FY 97. The cost of removing that risk has no causal connection with the targeted special services.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T200-10-17

USPS/OCA-T200-11. Please refer to your response to interrogatory USPS/OCA-T200-2(a), where you point out that Dockets No. MC95-1 and MC96-2 used FY 95 as the test year, while Docket No. MC96-3 uses FY 96 as the test year.

- (a) Do you believe that the Postal Service should have used FY 95 as its test year for Docket No. MC96-3? Please explain your views on the selection of the appropriate test year for Docket No. MC96-3 fully.
- (b) Is it your opinion that all classification reform initiatives filed before the next omnibus rate case should use FY 95 as the test year?

A. (a) I am not in a position to tell the Postal Service what test year to use. However, I do object to the Postal Service's arbitrary determination to target special services with an additional net revenue requirement of \$339.4 million simply because a few special services had the bad luck to be ready for a classification reform filing.

(b) Such an approach certainly has advantages, such as reducing the appearance of favoritism as well as the number of issues to be litigated. Rate changes designed solely to bring actual cost coverages or contributions back "in line" with test year projections are only meaningful when the old test year is used as the reference point. When rates are set for a test year, no one expects the same cost coverage or contribution to prevail in years beyond the test year. There is thus no basis for a

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T200-10-17

CONTINUATION OF ANSWER TO USPS/OCA-T200-11(b):

claim that rates are "out of line" when a comparison is made
between a general rate case test year and some later year.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T200-10-17

USPS/OCA-T200-12. Please refer to your response to interrogatory USPS/OCA-T200-2(a), where you quote from the Postal Service's Docket No. MC95-1 Request, at page 2, concerning the Postal Service's proposal to "... establish this framework as the basis for current and future classification reforms...."

- (a) Please confirm that the "framework" referred to in this quote has nothing to do with the Postal Service's contribution neutrality goal for Docket No. MC95-1, which is first presented two pages later in the Request. If you do not confirm, please explain.
- (b) Assume that the "framework" for classification reform referred to on page 2 of the Postal Service's Docket No. MC95-1 relates to defining the classes of mail to reflect different service levels desired by customers. Under this assumption please confirm that Docket No. MC96-3 is consistent with (or unrelated to) the classification reform framework presented on page 2 of the Docket No. MC95-1 Request. If you do not confirm, please explain why?

A. (a) Not confirmed. The Postal Service's Docket No. MC95-1 Request, goes on to state,

The Postal Service has also determined that within this framework the criteria used to define subclasses of mail should be

The Postal Service has developed the following guiding principles for use in designing specific classification reform proposals:

Given this systematic approach to classification redesign, the Postal Service's classification reform effort is, by necessity, an ongoing, evolutionary process which will continue over the course of the next few years. This Request addresses those reforms that are ready for Commission review and implementation now. Others will be developed

Postal costs, volumes and revenues for the reformed subclasses will necessarily change as a result of the classification reform and associated rate changes. The proposed rates are designed so that the

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T200-10-17

CONTINUATION OF ANSWER TO USPS/OCA-T200-12(a):

Postal Service will recover approximately the same FY
1995 institutional cost contribution from the reformed
subclasses

 This contribution neutrality goal was established
. . . .

From the information provided by the Postal Service in its Request, it is clear that changes in volumes, costs and revenues were anticipated. It is also true that the Request addressed reforms that were ready for review. The contribution neutrality goal was established in Docket No. MC95-1. Should I have interpreted the Postal Service's MC95-1 Request as a ruse designed to lull the Commission and all participating intervenors into believing that the "framework," "guiding principles," "systematic approach to classification redesign," and "contribution neutrality goal" were not part of an "ongoing, evolutionary process which will continue over the course of the next few years"? Request of the United States Postal Service For A Recommended Decision on Classification Reform of First-, Second-, and Third-Class Mail, Docket No. MC95-1, at 3.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T200-10-17

CONTINUATION OF ANSWER TO USPS/OCA-T200-12:

(b) I dispute the accuracy of the assumption underlying this question. In Docket No. MC95-1, the Postal Service did not survey special service users. The Postal Service primarily addressed the concerns of MTAC members, who may coincidentally be special service users. In Docket No. MC96-3, the Postal Service did not survey special service users regarding the service levels they desired. For example, the Market Research on Post Office Box Price Sensitivity, USPS-SSR-111, examined users' sensitivity to price level changes, not service levels desired. Postal Service witness Ellard did not ask special service users how they would ^dresponse to a non-resident box fee. Another example of the Postal Service's failure to consider service levels desired by special service users occurs in return receipt. The Postal Service's decision to eliminate the "return receipt service that does not include address information, which is shown to be preferred by nine-tenths of users" (OCA-T-100 at 11), is inconsistent with the Postal Service's claim that they are considering consumers' desired service levels. Therefore, I am unable to confirm your request. Even putting aside the

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T200-10-17

CONTINUATION OF ANSWER TO USPS/OCA-T200-12(b):

issue regarding the contribution neutrality goal, it would seem that the Postal Service's request in Docket No. MC96-3 is inconsistent with its Request in Docket No. MC95-1.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T200-10-17

USPS/OCA-T200-13. Please refer to your response to USPS/OCA-T200-2(b), where you state that "not all future classification cases must be net revenue neutral."

- (a) Please provide an example of a classification case that would not need to be net revenue neutral.
- (b) How would a "classification" case need to be formulated so that you would not consider it to be part of "classification reform" as begun in Docket No. MC95-1?

A. (a)-(b) Please see my response to USPS/OCA-T400-21. To my knowledge, Docket No. MC96-1 filed by the Postal Service was a classification case that was not part of classification reform.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T200-10-17

USPS/OCA-T200-14. Please refer to your response to USPS/OCA-T200-2(b), where you state "if the Postal Service had wanted to use classification reform to generate revenues, it should have done so from the beginning." Assume that the Postal Service had requested additional net revenue in Docket No. MC95-1. Would that make the Postal Service's request for additional net revenue in Docket No. MC96-3 more acceptable to you? If so, please explain why.

A. Please see my responses to USPS/OCA-T400-21 and

USPS/OCA-T200-12. If the Postal Service had requested additional net revenues in Docket No. MC95-1 and the need for additional net revenues were somehow attributable to the reformed classes, then such a request would be neither arbitrary nor discriminatory. The request for additional net revenues in Docket No. MC96-3 remains arbitrary and discriminatory and would not be any more acceptable.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T200-10-17

USPS/OCA-T200-15. Please refer to your responses to
USPS/OCA-T200-6.

- (a) Is it your testimony that rates determined in an omnibus rate case are necessarily fair and equitable? If your answer is other than yes, please explain how unfair and inequitable rates can be established in an omnibus rate case.
- (b) Is it your testimony that rates determined outside of an omnibus rate case are inherently not fair and equitable? If your answer is other than yes, please explain how fair and equitable rates can be established outside of an omnibus rate case.

A. (a) Yes.

(b) Please see my response to USPS/OCA-T400-21.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T200-10-17

USPS/OCA-T200-16. Please refer to your response to interrogatory USPS/OCA-T200-6(d), in which you state that as a result of the Postal Service's request for an across-the-board rate increase in Docket No. R94-1, "certain cost coverages that were 'out of line' did not get adjusted.

- (a) To what cost coverages are you referring?
- (b) Please confirm that the Postal Rate Commission in Docket No. R94-1 rejected the Postal Service's proposed across-the-board rate increase. PRC Op., R94-1, par. 4008. If you do not confirm, please explain fully.
- (c) To the extent that any cost coverages are "out of line", please confirm that it is not as a result of the Postal Service's request for an across-the-board rate increase. If you do not confirm, please explain fully.

A. (a) Please see my response to part (c) below.

(b) Confirmed.

(c) Not confirmed. The Postal Service proposed a 10.3 percent across-the-board increase in rates in Docket No. R94-1.

In PRC Op. R94-1, the Commission stated,

The Postal Service's across-the-board filing is inconsistent with cost-based ratemaking. The request ignores changing differences in costs between the classes of mail, includes no analysis of changing cost patterns within subclasses; and would result in substantial changes in the allocation of institutional costs among the subclasses of mail. The Service's rate proposal ignores changes in attributable costs. It would substantially increase the institutional cost burden on First-Class letters and Priority, and greatly decrease the burden on second-class regular rate and fourth class.

PRC Op. R94-1, para 1017. Further,

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TO INTERROGATORIES USPS/OCA-T200-10-17

CONTINUATION OF ANSWER TO USPS/OCA-T200-16(c):

The Commission is concerned that data deficiencies in the Postal Service's filing reflect a reduced commitment to the task of developing and providing reliable data for parties in Commission proceedings. Sufficient and accurate cost, volume, and revenue data are essential to determine fair and equitable rates. Reliable data would be necessary to support proposals to restructure the Postal Service's product line.

Id. para 1028. The Commission found itself presented with a "fait accompli" (PRC Op. R94-1, para 1034) and could not bring all rates into line with previously articulated principles.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T200-10-17

USPS/OCA-200-17. Please refer to your response to interrogatory USPS/OCA-T200-8(b), where you state "it is inappropriate to assume that the cost coverages established in Docket No. R94-1 are appropriate for Docket No. MC96-3."

- (a) Please make two assumptions: (1) the Postal Service had selected FY 95 as the test year for Docket No. MC96-3, and (2) the cost coverages in the Commission's Recommended Decision were not determined by the Postal Service's across-the-board proposal. In your opinion, would the cost coverages established in Docket No. R94-1 then be "appropriate" for the special services at issue in Docket No. MC96-3? Please explain your response.
- (b) If your answer to part (a) is not "yes", please explain what cost coverages would be "appropriate" for the special services at issue in Docket No. MC96-3.

A. (a)-(b). Please see my response to USPS/OCA-T200-11. Your hypothetical does not address other issues raised by the Commission in PRC Op. R94-1, and it appears to assume that the sole reason for rate changes is to bring rates back "in line" with the previous general rate case. However, if your scenario assumes that all things were adequately addressed, then it would be appropriate to address actual test year cost coverages that are either above or below the Commission's recommendations, starting with those that are most "out of line." This still involves focusing on the R94-1 test year, since cost coverages beyond the test year would be expected to be different.

ANSWER OF OCA WITNESS PAMELA A. THOMPSON
TO REDIRECTED INTERROGATORY USPS/OCA-T400-21

USPS/OCA-T400-21. On page 3, lines 8 and 9 of your testimony you state "I oppose this attempt to raise revenues outside an omnibus rate case".

- a. Is it your testimony that rates and revenue can never be increased except in an omnibus rate case? If your answer to (a) is affirmative, please identify all legal authority of which you are aware that supports your conclusion.
- b. If your answer to (a) is negative, please explain the circumstances under which you feel rates and revenues can be increased and how you reached this conclusion.

A. a. No.

b. I am not in a position to catalog all possible situations in which selective rate increases are justifiable. However, the decision to raise rates outside a general rate case must be rational. When the primary purpose of a rate increase is to generate new net revenue, then an omnibus rate case is appropriate. The predecisional exclusion of certain categories of mail from a rate increase designed to generate new net revenue is unfair, inequitable, arbitrary, and discriminatory.

I can hypothesize a situation in which a selective rate increase would be rational. When it can be demonstrated that a particular category of mail has caused a new revenue burden (e.g., when rates fall below attributable costs), then a targeted rate increase, designed solely to recover the new demonstrated revenue burden, may be appropriate. However, it should be

Revised 11/13/96

ANSWER OF OCA WITNESS PAMELA A. THOMPSON
TO REDIRECTED INTERROGATORY USPS/OCA-T400-21

CONTINUATION OF ANSWER TO USPS/OCA-T400-21:

possible to make even this type of case net revenue neutral. In any given year there are likely to be categories of mail whose cost coverage is too high relative to the Commission's most recent recommendation. Such categories could receive rate reductions designed to neutralize the net revenue effect of any necessary rate increases.

The following discussion refers to OCA-LR-6, page 4. The projected FY 95 (i.e., R94-1 TYAR) cost coverage for total mail and services was 156.8 percent. The actual FY 95 (i.e., MC96-3, BY 95) total mail and services cost coverage was 157 percent. Comparing individual projected cost coverages with actuals indicates that some coverages are above, while others are below, the Commission's Docket No. R94-1 recommendations. For example, consider all cost coverage variances greater than 10 percentage points. The following cost coverages exceed Docket No. R94-1 Commission recommendations by more than 10 percentage points: Special Rate Fourth by 31.2, Priority by 28.4, Money Orders by 27.9, Certified by 26.5, Bound Printed Matter by 25.6, Cards by 19.1, Stamped Envelopes by 12.2, and Registry by 11.8.

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ANSWER OF OCA WITNESS PAMELA A. THOMPSON
TO REDIRECTED INTERROGATORY USPS/OCA-T400-21

CONTINUATION OF ANSWER TO USPS/OCA-T400-21:

Bringing these cost coverages "in line" with the Commission's Docket No. R94-1 recommendations could require each to have a rate decrease. The following cost coverages are below the Commission's Docket No. R94-1 recommendations by more than 10 percentage points: Single Piece Third by 44.5, Second-Class Classroom by 24.6, Special Delivery by 17.5, Fourth-Class Library Rate by 17.0, COD by 13.9, and P.O. Box/Caller Service by 10.3. Bringing these cost coverages "in line" with the Commission's Docket No. R94-1 recommendations could require each to have a rate increase.

The Postal Service proposes classification reform for select special service offerings. Conceivably, Docket No. MC96-3 could have been net revenue neutral. Several special service rates are "out of line" with the Commission's Docket No. R94-1 recommended cost coverages, and rates could have been adjusted to bring them more "in line." For example: Money Orders, Registry, Special Delivery, COD and P.O. Box/Caller service. However, the Postal Service ignored Money Orders and COD and targeted Certified.

Revised 11/6/96

ANSWER OF OCA WITNESS PAMELA A. THOMPSON
TO REDIRECTED INTERROGATORY USPS/OCA-T400-21

CONTINUATION OF ANSWER TO USPS/OCA-T400-21:

In R94-1, projected total attributable costs for special services for FY 95 were \$1,366.7 million; revenues were \$1,542.8 million. See Appendix G, Schedule 1. Actual total FY 95 attributable costs for special services were \$1,360.5 million; revenues were \$1,563.8 million. PRC-LR-2, Base Year (FY 1995), and USPS-T-5C. Special service actual attributable costs for FY 95 were thus \$6.2 million less than R94-1 projections, while actual revenues were \$21.1 million in excess of the Commission's projections. Clearly, if the purpose of MC96-3 were to bring special service rates back "in line" with R94-1, then no increase in net revenues would be needed.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORY USPS/OCA-T200-33

USPS/OCA-T200-33. Please refer to your response to redirected interrogatory USPS/OCA-T400-21, where you state that a targeted rate increase may be appropriate "when it can be demonstrated that a particular category of mail has caused a new revenue burden (e.g., when rates fall below attributable costs)..." Please explain specifically what you mean by "caused a new revenue burden." Does this concept extend to situations in which the actual cost coverage is greater than 10 percentage points below the Commission's Docket No. R94-1 recommendations, as you discuss later in your response, or is it limited to situations in which rates fall below attributable costs?

A. Whenever actual net revenues fall below projected net revenues a deficiency in net revenues occurs. Similarly, when actual net revenues are greater than projected net revenues a surplus in net revenues occurs. In my response to USPS/OCA-T400-21, I state,

For example, consider all cost coverage variances greater than 10 percentage points. The following cost coverages exceed Docket No. R94-1 Commission recommendations by more than 10 percentage points: The following cost coverages are below the Commission's Docket No. R94-1 recommendations by more than 10 percentage points: . . . (emphasis added).

Interrogatory USPS/OCA-T400-21 requested that I "explain the circumstances under which you feel rates and revenues can be increased" My response stated,

I am not in a position to catalog all possible situations in which selective rate increases are justifiable.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORY USPS/OCA-T200-33

CONTINUATION OF ANSWER TO USPS/OCA-T200-33:

I go on to

hypothesize a situation in which a selective rate increase would be rational. When it can be demonstrated that a particular category of mail has caused a new revenue burden (e.g., when rates fall below attributable costs), then a targeted rate increase, designed solely to recover the new demonstrated revenue burden, may be appropriate.

By the expression "caused a new revenue burden" I am simply trying to imagine a situation in which a targeted rate increase would not be arbitrary. I.e., there seem to be at least two necessary conditions to be met. (I do not claim sufficiency for these conditions.) First, there must be a new net revenue need that could not have been foreseen in the last general rate case, is not covered by the contingency provision, and is not offset by unexpected net revenue surplus. Second, there must be a causal connection between the new net revenue need and the categories of mail targeted for rate increases.

The first condition implies an increased revenue requirement. It is a necessary condition because failure to meet it means there is no justification for raising any rates. The second condition is necessary because failure to meet it means

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORY USPS/OCA-T200-33

CONTINUATION OF ANSWER TO USPS/OCA-T200-33:

there is no rationale for singling out the targeted categories. My discussion of cost coverage deviations exceeding ten percentage points was simply a device for focusing on events that were truly unexpected. As I have stated elsewhere, no one expects actual cost coverages to match projected cost coverages exactly.

1 COMMISSIONER QUICK: Does any participant have
2 additional written cross examination for witness Thompson?

3 All right -- only one participant, the United
4 States Postal Service has requested oral cross examination
5 of witness Thompson.

6 Does any other participant have oral cross
7 examination for witness Thompson?

8 [No response.]

9 COMMISSIONER QUICK: Ms. Duchek, you may begin.

10 MS. DUCHEK: Thank you, Commissioner Quick.

11 CROSS EXAMINATION

12 BY MS. DUCHEK:

13 Q Ms. Thompson, would you please turn to page 4 of
14 your testimony. I would like you to look at the quote
15 beginning at line 17 and continuing through page 5, line ³~~13~~.
16 It is the quote from the Postal Service's request from
17 Docket Number MC95-1.

18 You quote portions of two sentences from that
19 request, is that correct?

20 A These are from that request, yes.

21 Q And they are portions of two sentences, is that
22 correct?

23 A I think this was asked of me in your other
24 interrogatories to me regarding portions of MC95-1, but yes,
25 they are.

1 MS. DUCHEK: Thank you. I am going to hand you a
2 copy of the Postal Service's request in Docket Number MC95-
3 1 and I am also going to hand the Reporter two copies marked
4 USPS-XE-1 and I ask that they be transcribed as cross
5 examination exhibits.

6 COMMISSIONER QUICK: So moved or they will be,
7 please.

8 [Cross-examination Exhibit USPS-
9 XE-1 was marked for identification,
10 received into evidence and
11 transcribed into the record.]

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

MAIL CLASSIFICATION SCHEDULE, 1995
CLASSIFICATION REFORM I

Docket No. MC95-1

REQUEST OF THE UNITED STATES POSTAL SERVICE
FOR A RECOMMENDED DECISION ON CLASSIFICATION REFORM
OF FIRST-, SECOND-, AND THIRD-CLASS MAIL

The United States Postal Service has determined that changes in the Domestic Mail Classification Schedule (DMCS) to establish Automation and Retail subclasses in a reformed First-Class Mail class; to establish Regular, Automation, and Enhanced Carrier Route subclasses in a reformed Standard Mail class; to establish a Publications Service subclass in a reformed Periodicals class; and to make a number of nonsubstantive editorial and organizational improvements are in the public interest and in accordance with the policies and applicable criteria of title 39, United States Code. Pursuant to chapter 36 of that title, the Postal Service requests that the Postal Rate Commission recommend amending the DMCS and its attendant Rate Schedules accordingly.

Over the last four years, the Postal Service has engaged in an extensive external and internal process to determine if the current mail classification structure should be reformed and, if so, to develop the structure and the specifics of that reform. As a result of this effort, the Postal Service has concluded that classification reform is necessary to meet its obligations to provide adequate and efficient postal

services at fair and reasonable rates that meet the needs of its customers. See 39 U.S.C. §§ 101(a), 403(a), and 403(b).

As the framework of classification reform, the Postal Service has determined that the customer's choice of service level should be the basic criterion used to define the classes of mail. This approach is consistent with that of the Postal Service's competitors. Under this market-based framework the Postal Service proposes three levels of service, each of which, subject to content limitations, would be available for all permissible sizes and weights of mail. These service levels, and the current classes of mail that correspond to each level are: Expedited (Express Mail), First-Class (First-Class Mail), and Standard (third- and fourth-class mail). In addition, the Postal Service has concluded that separate classification treatment for periodical publications continues to be warranted. In this Request, the Postal Service proposes to establish this framework as the basis for current and future classification reforms by restructuring the DMCS into four classes: Expedited Mail, First-Class Mail, Standard Mail, and Periodicals.

The Postal Service has also determined that within this framework the criteria used to define subclasses of mail should be (1) customer preparation of mail, using advanced technology where appropriate, that permits the Postal Service to use advanced technology to accept, process and deliver the mail, and (2) customer preparation of mail that allows the bulk bypass of postal operations. The customers' increased use of advanced mail preparation techniques, in conjunction with the Postal Service's continued automation and streamlining of mail acceptance and

processing operations, is the best way to reduce postal costs and improve efficiency. There is an especially critical link between improved mail preparation and the Postal Service's ability to achieve its automation goals. To attain the greatest benefits from the automation of mail processing, and especially the automated delivery point sequencing of letter mail, it is critical that the Postal Service receive as much high-quality, automation compatible and prebarcoded mail as is practicable for postal customers to generate. The bulk entry of mail and presortation based on geographic mailing density allow mail to bypass the more costly of the Postal Service's mail collection and processing operations. To meet the needs of the competitive environment, it is critical that these features of customer mail preparation be recognized in the classification of mail.

The Postal Service has developed the following guiding principles for use in designing specific classification reform proposals: (1) create homogeneous cost- and market-based subclasses, (2) apply pricing in a more effective manner, (3) encourage low-cost mailstreams, (4) modernize and standardize mail entry requirements, (5) reduce the impact of the content of mail in its classification, (6) eliminate unnecessary classifications, and (7) add classifications only where significant market or operational needs exist.

Given this systematic approach to classification redesign, the Postal Service's classification reform effort is, by necessity, an ongoing, evolutionary process which will continue over the course of the next few years. This Request addresses those reforms that are ready for Commission review and implementation now. Others will

be developed in areas such as nonprofits, priority mail, and parcels, as well as further reforms of the services addressed in this Request. The reorganization of the DMCS included as part of this Request will create a market-based classification structure to accommodate these future reforms.

The Commission is specifically requested to issue a Recommended Decision on the reform of four current subclasses of mail: the current regular First-Class Mail and First-Class postal and post cards subclasses are to be replaced by Automation and Retail subclasses of First-Class Mail; the current regular rate bulk third-class mail subclass is to be replaced by Regular, Automation, and Enhanced Carrier Route subclasses of Standard Mail; and the current regular second-class mail subclass is to be replaced by Regular and Publications Service subclasses within the Periodicals class.

Postal costs, volumes and revenues for the reformed subclasses will necessarily change as a result of the classification reform and associated rate changes. The proposed rates are designed so that the Postal Service will recover approximately the same FY 1995 institutional cost contribution from the reformed subclasses as was projected by the Commission for their antecedent subclasses for FY 1995 in its Opinion and Recommended Decision in Docket No. R94-1. Thus, the total FY 1995 contribution from the proposed First-Class Automation and Retail subclasses combined is projected to be approximately the same as that projected by the Commission for the First-Class regular and postal and post card subclasses in Docket No. R94-1. Similar contribution targets were set for the combined Regular,

Automation, and Enhanced Carrier Route Standard Mail subclasses, as compared to the current bulk regular third-class subclass, and for the combined Regular and Publications Service Periodicals subclasses, as compared to the current regular rate second-class subclass. The institutional cost contributions projected by the Commission for all remaining subclasses are assumed to be constant and are not reopened in this Request. In addition, except as noted below, all assumptions made or implicit in the Docket No. R94-1 Recommended Decision are continued in the documentation that accompanies the Request.

This contribution neutrality goal was established because this Request is not intended to be a revenue case, nor an opportunity to challenge, change, or improve on the Commission's conclusions drawn from the record in Docket No. R94-1. The rate changes included in this Request are solely for the purpose of applying the pricing factors of the Postal Reorganization Act to the reformed subclasses; the Postal Service is not seeking to increase or decrease institutional cost contributions beyond the levels recommended by the Commission and approved by the Governors in Docket No. R94-1. The Postal Service is also hopeful that, by using a contribution neutral approach, the Postal Service, the Commission and the parties to this case can avoid the inter-class cost coverage disputes that generally occur in omnibus revenue cases. For all of these reasons, the Postal Service has accepted the Commission's Docket No. R94-1 projected institutional cost contribution targets for purposes of this classification reform Request.

Except as required to estimate the costs, volumes and revenues for the new subclasses, and except with respect to the city carriers single subclass stop issue, on which the Governors have recently acted in connection with Docket No. R90-1 and which is before the Commission for reconsideration in Docket No. R94-1, no methodological changes or departures from the Docket No. R94-1 Recommended Decision have been incorporated into this Request. In this Request, only volume variable city carrier street time costs have been included in the attributable cost base; the remaining city carrier street-time costs attributed in the Recommended Decision in Docket No. R94-1 for each relevant existing subclass have been included in the net revenue target for the pertinent group of reform subclasses. Next, for the reasons stated in the testimony of Dr. Tolley, the forecast for First- and third-class prebarcoded flats in Docket No. R94-1 has been adjusted, and the 1993 base for the prebarcode portion of First-Class letters and cards has been recast to incorporate additional information from mailing statements. However, these adjustments have been made only for purposes of forecasting volumes "after reform," in order to make the best estimate of First-Class and Standard volume and revenue.

Organizational changes in the DMCS also are proposed to conform with the new classification structure requested by the Postal Service, again without substantive change. The current Priority Mail subclass would be included in First-Class Mail as now; the current third-class Single Piece and Nonprofit subclasses would be included in Standard Mail; the current fourth-class Parcel Post, Bulk Parcel

Post, Bound Printed Matter, Special, and Library subclasses would be included in Standard Mail; and the current preferred rate second-class classifications for Within County, Nonprofit, Classroom, and Science of Agriculture publications would be included in Periodicals class. No rate changes or substantive classification changes are requested for these existing classifications. The Postal Service also requests that a number of editorial changes be made to the Special Service Classification Schedules and to the Special Service Rate Schedules to reflect the changes in the names and organization of the reformed classes and subclasses. No substantive changes are proposed in these Special Service schedules. Rate Schedule 1000 also would be changed to reflect the classification reform changes, including the addition of a fee for the entry of Publications Service publications. A proposed increase in the maximum thickness for post cards is included as part of the First-Class reforms.

A further classification improvement being requested here is the consolidation and updating of the General Definitions (sections .01 through .11) and the General Terms and Conditions (sections 1000 through 6000) portions of the DMCS. The General Definitions are renumbered as section 1000 and the definitions are numbered sequentially beginning with 1001. To accommodate the incorporation of the General Definitions portion of the DMCS as section 1000 of General Terms and Conditions, the numbering of the current sections in General Terms and Conditions has been revised. In addition, references to return receipt and Express Mail have been included in proposed sections 2022 and 2027. The definitions for full rates

and phased rates have been removed because changes in title 39, U.S. Code, regarding preferred rates have made these terms obsolete. A new section 6030 also is proposed to indicate that there are maximum size and weight limits on mailable matter.

The listing of territories and possessions of the United States (in current General Definitions section .10) is also deleted. Significant changes in that listing have occurred in recent years, primarily as a result of the termination of the Trust Territory of the Pacific Islands. (See USPS-LR-MCR-34, United States Department of the Interior, Fact Sheets, United States Insular Areas, Trust Territory of the Pacific Islands, Freely Associated States, for information on the current status of possessions and territories.) Given these changes in the status of territories and possessions and the fact that decisions on such status are not made by the Postal Service or the Postal Rate Commission, the DMCS is not an appropriate vehicle for maintaining a current list of the territories and possessions of the United States. The references to territories and possessions of the United States in the provision related to zone-rated APO/FPO mail (current section 4000.012, proposed section 4050) are also out of date and have been revised to reflect the decision to not list territories and possessions in the DMCS.

In conjunction with these classification reform and DMCS reorganization requests, the Postal Service also requests that the Commission recommend the editorial changes included in the DMCS provisions set forth in Attachment A and in

the Rate Schedules set forth in Attachment B. These changes, which are designed to streamline and standardize the DMCS, include the following:

- Renumbering to eliminate the current four-decimal place section numbering structure;
- Standardization of the organizational structure so that related provisions are in the same numbered sections in each Classification Schedule;
- Inclusion in the text of the reformed subclasses of the substantive classification provisions now set forth in Rate Schedule footnotes;
- Consolidation of small sections;
- Elimination of redundant and obsolete material; and
- Use of headings for all sections.

The requested amendments to the DMCS and its attendant Rate Schedules will further the general policies of efficient postal operations and reasonable rates enunciated in the Postal Reorganization Act. See 39 U.S.C. §§ 101(a), 403(a), and 403(b). The requested changes also conform with the criteria of 39 U.S.C. §§ 3622(b) and 3623(c).

The Postal Reorganization Act sets forth, in section 3623(c), the following six criteria for changing the mail classification schedule:

1. the establishment and maintenance of a fair and equitable classification schedule for all mail;
2. the relative value to the people of the kinds of mail matter entered into the postal system and the desirability and justification for special classifications and services of mail;
3. the importance of providing classifications with extremely high degrees of reliability and speed of delivery;

4. the importance of providing classifications which do not require an extremely high degree of reliability and speed of delivery;
5. the desirability of special classifications from the point of view of both the user and of the Postal Service; and
6. such other factors as the Commission may deem appropriate.

The Postal Service proposals are consistent with the criteria of section 3623(c). The restructuring of the DMCS to create a structure that moves towards service-based classes of mail recognizes the importance of providing classifications which require differing degrees of reliability and speed of delivery. The establishment of market-based classes and subclasses of mail recognizes the desirability of special classifications from the point of view of the mail user and the Postal Service. The establishment of a separate class for Periodicals recognizes the relative value of the mail matter eligible for that classification and the strong desire of publishers to maintain a separate class for periodical publications. The establishment of homogeneous subclasses of mail is based on cost and market factors that encourage mailers to invest in advanced mail production and preparation technology and that reward mailers for producing and preparing their mail so that the mail can bypass postal operations and the Postal Service can use advanced technology to accept, process and deliver it. As a result, this new schedule will materially contribute to the maintenance of a fair and equitable classification system for all mail. Finally, the requested changes will further the Postal Service's efforts to reduce costs through effective use of postal automation

and improved mail preparation -- goals appropriate for consideration by the Commission.

The Postal Reorganization Act sets forth, in section 3622(b), the following nine criteria for determining postal rate and fee levels:

1. the establishment and maintenance of a fair and equitable schedule;
2. the value of the mail service actually provided each class or type of mail service to both the sender and the recipient, including but not limited to the collection, mode of transportation, and priority of delivery;
3. the requirement that each class of mail or type of mail service bear the direct and indirect postal costs attributed to that class or type plus that portion of all other costs of the Postal Service reasonably assignable to such class or type;
4. the effect of rate increases upon the general public, business mail users, and enterprises in the private sector of the economy engaged in the delivery of mail matter other than letters;
5. the available alternative means of sending and receiving letters and other mail matter at reasonable costs;
6. the degree of preparation of mail for delivery into the postal system performed by the mailer and its effect upon reducing costs to the Postal Service;
7. simplicity of structure for the entire schedule and simple, identifiable relationships between the rates or fees charged the various classes of mail for postal services;
8. the educational, cultural, scientific and informational value to the recipient of mail matter; and
9. such other factors as the Commission may deem appropriate.

The Postal Service's proposals are consistent with all the criteria of section 3622(b). This redesign of postal products will produce rates that are fundamentally

fairer and more equitable to mail users by aligning postal rates more closely with costs. At the same time, care has been taken in developing these proposals to ameliorate the effects of rate changes as a result of product realignment. The Postal Service has carefully considered the effect of rate increases on the general public, business mail users, and enterprises in the private sector in developing its rate proposals, and where appropriate has moderated rate increases, or increased discounts, to mitigate any hardships to users as we move to a new structure of postal products. The value of the mail service actually provided, both to the sender and recipient, also was considered and is reflected in the proposed rates.

The Postal Service also carefully considered the requirement that each class of mail and type of mail service bear the direct and indirect postal costs attributed to it. These proposals align rates more closely with the degree of preparation of mail for entry into the mailstream and the cost-causing characteristics of mail overall, in a manner more successful than in the past. By more closely relating these characteristics to the classes and categories of mail, the proposals allow rates which more accurately reflect the needs of different groups of mail users and provide more cost-based pricing. It also provides strong incentives to drive costs out of the system by linking postage rates more closely with cost characteristics. The proposals also were developed with due consideration to the availability of alternative means of sending and receiving letters. The rate design reflects consideration of alternative means of sending postal matter, and prices have been

proposed that reflect the alternatives that modern mailers face. At the same time, no changes in rates have been proposed for single-piece First-Class letters.

An important consideration in developing the rate proposals was the simplicity of the structure of the entire schedule. The redesigned categories of mail create readily identifiable relationships between the rates charged for various services. At the same time, the confusing complex of current rates, reflecting historical developments in mail processing laid over each other, is replaced by a single system which reflects how mail is processed today. In doing so, the Postal Service has also striven to simplify rates wherever possible. For example, in First-Class Mail the number of letter and card rates has been reduced from 22 to 17, reflecting the elimination of anachronistic rate categories that are no longer consistent with Postal Service operations. The rates for Publications Service mail are content free and have only 9 rates, compared with 23 different rates in the current rate schedule for regular rate second-class publications. Each reformed subclass in Standard Mail has no more than 16 rates, compared with 33 different rates that confront a mailer and acceptance clerk dealing with a mailing of bulk regular third-class mail today.

Finally, the Postal Service has considered the educational, cultural, scientific and informational value to the recipient of mail matter in developing its rate proposals, particularly in Publications Service. For example, publications must have no less than 30 percent nonadvertising per issue to qualify for Publications Service. Currently, subscriber publications only need 25 percent nonadvertising in one-half of the issues published during any 12-month period. Publications Service publications

that fail to adhere to the 30 percent nonadvertising standard will be assessed a postage surcharge of forty percent. In addition, at least 75 percent of the circulation of a Publications Service publication must be distributed to persons who have paid for or requested the publication, which is a fifty percent improvement on current requirements. In the Regular Periodicals subclass the proposed rate design has retained the unzoned nonadvertising pound charge and substantially increased the per-piece nonadvertising discount. The cost coverages for both subclasses are significantly below the cost coverage of most other mail classes, in part to reflect this criterion.

In accordance with the Commission's Rules of Practice and Procedure (39 CFR §§ 3001.54 and 3001.64), the Postal Service files with this Request the prepared direct evidence on which it proposes to rely, which consists of the testimony and exhibits of 22 witnesses. The page following this Request is an index of Attachments. The testimony, exhibits and workpapers of each witness have been marked for identification as shown in Attachment E. Attachment E also lists the name and phone number of the principal attorney assigned to each witness and the attorney's telephone number. Further data submitted for informational purposes or in response to specific sections of the Rules of Practice are included in the other Attachments. The Postal Service is also filing under separate cover associated library references that are too voluminous, or inappropriate, for inclusion in the testimony, as well as the workpapers of the witnesses noted in Attachment E. The Postal Service will schedule technical conferences as appropriate for specific


witnesses. Requests for technical conferences should be addressed to the attorney assigned to the respective witness listed in Attachment E.

WHEREFORE, the United States Postal Service, pursuant to 39 U.S.C. §§ 3622(a) and 3623(b), hereby requests the Postal Rate Commission to make and submit a recommended decision to the Governors supporting the Request of the Postal Service and recommending the proposed revisions to the Domestic Mail Classification Schedule and its attendant Rate Schedules set forth in Attachments A and B to this Request.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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475 L'Enfant Plaza West, S.W
Washington, D.C. 20260-1146
March 24, 1995

1 BY MS. DUCHEK:

2 Q Ms. Thompson, would you please turn to page 5 of
3 the request from Docket Number MC95-1.

4 A Page 5?

5 Q Yes, and I am going to read the two sentences in
6 their entirety that you quoted in part in your testimony.

7 Those sentences read:

8 "This contribution neutrality goal was
9 established because this ^{Request}~~request~~ is not intended to be a
10 revenue case nor an opportunity to challenge, change, or
11 improve on the Commission's conclusions drawn from the
12 record in Docket ^{no,}~~Number~~ R94-1. The rate changes included in
13 this ^{Request}~~request~~ are solely for the purpose of applying the
14 pricing factors of the Postal Reorganization Act to the
15 reformed subclasses. The Postal Service is not seeking to
16 increase or decrease institutional cost contributions beyond
17 the levels recommended by the Commission and approved by the
18 Governors in Docket ^{no,}~~Number~~ R94-1."

19 Did I read those two sentences correctly?

20 A Yes, you did. On page 5, you did.

21 Q Both of those sentences are explicitly limited to,
22 quote, unquote, this ^{Request}~~request~~, are they not?

23 A They do say this request.

24 Q And there is no reference in those two sentences
25 whatsoever to any other case, is there?

1 A In these two sentences, it is not, but if you turn
2 to your page 2 of your request --

3 Q Ms. Thompson, we'll get to page 2. I asked you
4 specifically about these two sentences.

5 A These two sentences --

6 MR. COSTICH: Mr. Presiding Officer, I would ask
7 that the witness be allowed to complete her response.

8 MS. DUCHEK: Mr. Presiding Officer, I think that
9 Mr. Costich is entitled to do whatever redirect on the
10 witness that he wants. I'm specifically asking, and we will
11 get to page 2 in my series of questions, but right now, I'm
12 specifically focusing on those two sentences.

13 COMMISSIONER QUICK: Witness Thompson, I hope you
14 will try to answer the question as directly and specifically
15 as you can.

16 Go ahead.

17 BY MS. DUCHEK:

18 Q Again, Ms. Thompson, in those two sentences, you
19 confirm that there was no reference to any other case,
20 correct?

21 A I confirm that you say this request in those
22 sentences.

23 Q In those two sentences.

24 A Right.

25 Q And also, again, just in those two sentences,

1 there is no reference whatsoever to generic classification
2 reform, is there?

3 A Well, I would say that you have -- the rate
4 changes are for the purpose of applying pricing factors of
5 the Postal Reorganization Act to reform subclasses. So I
6 wouldn't know whether it was referring to just the
7 subclassses presented in that request or to future ones that
8 were anticipated.

9 Q The prior part of that sentence states, "the rate
10 changes included in this request are solely for the purpose
11 of applying the pricing factors of the Postal Reorganization
12 Act to the reformed subclasses;" is that correct?

13 A That's correct.

14 Q So the antecedent of that sentence is this
15 request; is that correct?

16 A It is referring to this request.

17 Q And the references to the reformed subclasses in
18 that sentence also; is that correct?

19 A I'm sorry, what are you asking me to say is
20 correct? That you read it correctly?

21 Q The sentence states, "the pricing factors of the
22 Postal Reorganization Act to the reformed subclasses;" is
23 that correct? That portion of the sentence.

24 A You have read it correctly, yes.

25 Q I would like you to look at the rest of the

1 paragraph which we just quoted the first two sentences of.
2 There are two further sentences in that paragraph, and I'm
3 going to read those two sentences.

4 "The Postal Service is also hopeful that, by using a
5 contribution neutral approach, the Postal Service, the
6 Commission and the parties to this case can avoid the
7 interclass cost coverage disputes that generally occur in
8 omnibus revenue cases. For all of these reasons, the Postal
9 Service has accepted the Commission's Docket ^{no.} ~~Number~~ R94-2
10 projected institutional cost contribution targets for
11 purposes of this classification reform ^{Request."} ~~request~~.

12 Did I read those two sentences correctly?

13 A Yes, you did.

14 Q Once again, just those two sentences are limited
15 to this case or this request; is that correct?

16 A Those two sentences are found in this request,
17 yes. I -- you know -- you're asking me to say if it's just
18 limited to this request, and you have to take your whole
19 document in -- I'm saying, and I can't argue this as a
20 lawyer, but I'm saying as an individual reading this,
21 sentence by sentence, you have read it correctly, but it is
22 a part of a whole document.

23 Q We'll get to the rest of the document later, Ms.
24 Thompson. I'm specifically asking you now just about those
25 two sentences. Those two sentences are limited to this case

1 and this request; is that not correct?

2 A They have been written for this document. I don't
3 know that they haven't been addressed for all cases given
4 your -- given the whole document.

5 Q I'm not asking for any sort of interpretation in
6 the mind of the writer; I am asking exactly what those two
7 sentences say. Those two sentences contain the words this
8 request and this classification reform request; do they not?

9 A You are asking me for an interpretation, I
10 believe, and yes, you have read the question correctly, and
11 yes, it does contain the word this.

12 Q Thank you. I was not asking you for an
13 interpretation.

14 Would you please turn to your response to USPS/
15 ~~OCA-T200-4~~
~~OCAT200-4~~.

16 A Yes.

17 Q Do you have that in front of you?

18 A Yes, I do.

19 Q Based on what I have just read you, would you care
20 to change your answer to confirmed?

21 A No. I still refer you to my response to
22 interrogatory 2A.

23 Q Please turn to your response to interrogatory 2A.

24 Can you show me in your response where you discuss
25 the two sentences from page 5 of the MC91-1 request that we

1 first discussed.

2 A I believe I address your quote in that this
3 request, the Postal Service proposes to establish a
4 framework as the basis for current and future classification
5 reforms by restructuring the DMCS into four classes:
6 expedited mail, first class mail, standard mail, and
7 periodicals. And this -- in your requested MC96-3, I go on
8 further to say in this response, this filing you have
9 indicated is unusual in that it would have the effect of
10 increasing net revenue for the Postal Service outside of an
11 omnibus rate case.

12 Q Ms. Thompson, in your response to T200-2A, all I
13 see is a quote from page 2 of the MC95-1 request; is that
14 correct?

15 A No. The other quote -- well, on page 1 of my
16 response?

17 Q Yes. I'm sorry. Page 1.

18 A That refers to a quote on page 2.

19 Q And there is nothing in your response to T200-2A
20 that discusses the quotations you earlier discussed from
21 page 5 of the request, is there?

22 A Do you mind if -- let me take a minute to look
23 back at my testimony.

24 Q That's fine.

25 A I would still say I don't agree with -- that it's

1 not confirmed because I think if you look at my testimony on
2 page 4, the first -- the paragraph or the few sentences that
3 precede it, it's prior to Docket Number MC96-3, the proposed
4 rates for reformed subclasses were designed to provide the
5 same test year contribution to institutional costs as was
6 projected by the Commission in Docket Number R94-1.
7 Classification reform was not intended to generate new
8 revenues. And I do not -- do not believe that that sentence
9 is only specific to that classification.

10 Q I understand that, Ms. Thompson, but my question
11 was, where in your response to T200-2^{do} you discuss
12 contribution neutrality or the quote that you gave at page 4
13 of your testimony which was from page 5 of the Postal
14 Service's MC95-1 request. In your response to T200-2, the
15 quote from MC95-1 is from page 2 of the MC95-1 request; is
16 that not correct?

17 A That is correct.

18 Q Thank you.

19 I would like you now to turn to page 2 of the
20 request from Docket Number MC95-1.

21 A Okay.

22 Q The sentence you quote in T200-2 in your response
23 to USPS/OCA T200-2A is the last sentence of the first full
24 paragraph on page 2 of the MC95-1 request; is that correct?

25 A It is the last sentence in the paragraph.

1 Q I would like to read that full paragraph, please.
2 this is from MC95-1, page 2. Quote:

3 "As the framework of classification reform, the
4 Postal Service has determined that the customer's choice of
5 service level should be the basic criterion used to define
6 the classes of mail. This approach is consistent with that
7 of the Postal Service's competitors. Under this market-
8 based framework, the Postal Service proposes three levels of
9 service, each of which, subject to content limitations,
10 would be available for all permissible sizes and weights of
11 mail. These service levels and the current classes of mail
12 that correspond to each are ~~expedited~~ ^{Expedited} (Express Mail), First-
13 Class (First-Class Mail) and ~~standard~~ ^{Standard} (Third- and fourth-
14 ~~Class Mail~~ ^{class mail}). In addition, the Postal Service has concluded
15 that separate classification treatment for periodical
16 publications continues to be warranted. In this ~~request~~ ^{Request},
17 the Postal Service proposes to establish this framework as
18 the basis for current and future classification reforms by
19 restructuring the DMCS into four classes: Expedited Mail,
20 First-Class Mail, Standard Mail, and Periodicals."

21 Q That paragraph in its entirety, then, discusses a
22 framework of classification reform in which the customers'
23 choice of service level should be the basic criterion used
24 to define the classes of mail; is that correct?

25 A It is one paragraph discussing the framework. I

1 think the following sentence also indicates there are
2 further discussions on the framework.

3 Q We will get to that in a minute. That paragraph
4 that I just quoted, however, talks about the framework in
5 terms of the customers' choice of service level as the basic
6 criterion used to define the classes of mail; is that
7 correct?

8 A It indicates that, yes, the customers' choice for
9 service level should be a basic criterion.

10 Q And within that paragraph, it is that framework
11 which the Postal Service proposes as the basis for current
12 and future classification reforms, correct?

13 A I'm not sure I completely understand your
14 question. Would you mind rephrasing it?

15 Q The framework referred to in that paragraph, as we
16 just agreed, was for the customers' choice of service level
17 being the basic criterion used to define the classes of
18 mail.

19 A It says it should be the basic criterion, yes.

20 Q And that is the framework referred to in that
21 paragraph?

22 A It is referring to a framework, yes. I don't
23 think it is necessarily, that paragraph, referring to the
24 framework in total.

25 Q I don't think I understand your response.

1 Within this paragraph, the only framework
2 discussed is having the customers' choice of service level
3 be the basic criterion used to define the classes of mail;
4 is that correct?

5 A It says customers' -- basic criterion should be
6 the customers' choice at service level and it does go on to
7 propose three levels of service which should be considered.

8 Q That is the framework referred to in that
9 paragraph; is that correct?

10 A In this paragraph, yes.

11 Q Within that paragraph, there is absolutely no
12 mention of that framework having anything to do with
13 contribution neutrality; is that correct?

14 A No, it does not -- I mean, you are correct, yes.

15 Q The Postal Service in its request in MC95-1 never
16 said that the framework for future classification reform
17 cases would presume contribution neutrality, did it?

18 A Are you asking in this paragraph? Because I
19 disagree with you in total. I mean, in the --

20 Q I'm asking in total.

21 In the total request, where did the Postal Service
22 ever say that the framework for future classification reform
23 cases would presume contribution neutrality? Please quote
24 me to the line and the sentence and page.

25 A I believe you have asked me a similar request in

1 an interrogatory response. If I may refer to it?

2 Q Please do.

3 Are looking at the response to 12, perhaps? Let
4 me see.

5 A Thank you.

6 Yes, that is the interrogatory I am referring to.

7 Q In that response, that's USPS-OCA-T200-12, again,
8 you partially quote a number of paragraphs from the MC95-1
9 request. Let's begin with the first sentence that you
10 quote.

11 If I read it correctly, you took that first
12 sentence from the second full paragraph on page 2 of the
13 MC95-1 request; is that correct?

14 A That's correct.

15 What I am trying to show in this interrogatory
16 response is you are indicating that a specific page is being
17 identified as being -- there is not contribution neutrality
18 and I am saying you are building on this whole document that
19 was provided by the Postal Service in its request and if you
20 read the entire document, it leads one to believe that there
21 is going to be a continuation of contribution neutrality.

22 Q Well, let's look at that entire paragraph that you
23 just quoted the first sentence of in your response to number
24 12. It begins the end of page 2 and continues on to page 3
25 and, again, I would like to, if you will indulge me, I will

1 read that into the record.

2 The Postal Service has also determined that within
3 this framework, the criteria used to define subclasses of
4 mail should be ⁽¹⁾~~one~~ customer preparation of mail, using
5 advanced technology where appropriate that permits the
6 Postal Service to use advanced technology to accept, process
7 and deliver the mail, ^{and (2)}~~And, two~~, customer preparation of
8 mail that allows the bulk bypass of Postal operations. The
9 customers' increased use of advanced mail preparation
10 techniques, in conjunction with the Postal Service's
11 continued automation and streamlining of mail acceptance and
12 processing operations, is the best way to reduce Postal costs
13 and improve efficiency.

14 There is an especially critical link between
15 improved mail preparation and the Postal Service's ability
16 to achieve its automation goals. To attain the greatest
17 benefits from the automation of mail processing, and
18 especially the automated delivery point sequencing of letter
19 mail, it is critical that the Postal Service receive as much
20 high-quality, automation[/]compatible and prebarcoded mail as
21 is practicable for ^{postal}~~Postal~~ customers to generate. The bulk
22 entry of mail and presortation based on geographic mailing
23 density allow mail to bypass the more costly of the Postal
24 Service's mail collection and processing operations. To
25 meet the needs of the competitive environment, it is

1 critical that these features of customer mail preparation be
2 recognized in the classification of mail."

3 There is absolutely no mention in that paragraph
4 which discusses the "framework" of anything having to do
5 with contribution neutrality, is there?

6 MR. COSTICH: Commissioner Quick, I don't know how
7 much longer we are going to continue reading from this
8 request but it is a public document of which the Commission
9 can take public -- official notice.

10 The Postal Service counsel is simply arguing with
11 the witness over her interpretation of a legal document.
12 The witness is not a lawyer and any further argument should
13 be conducted on brief. The witness has stated the basis for
14 her conclusion. Going through this document sentence by
15 sentence and saying I've read it correctly, haven't I, isn't
16 going to change the witness's conclusion.

17 MS. DUCHEK: Commissioner Quick, the witness has
18 placed her interpretation in issue by stating, in the Postal
19 Service's view quite wrongly, that the Postal Service in
20 MC95-1 said that there would be continuing efforts at
21 contribution neutrality in future cases. The Postal Service
22 did not say that. The language is quite clear. The
23 witness's interpretation is unreasonable and I believe that
24 we are entitled to examine into that.

25 It is not calling for a legal conclusion; it is

1 calling for an interpretation of a document which is in
2 plain English that the witness herself has placed into
3 dispute.

4 MR. COSTICH: Commissioner Quick, counsel is
5 simply trying to characterize the testimony of the witness
6 as would be done in a brief. All of these questions simply
7 constitute legal argument and they are not proper cross-
8 examination.

9 MS. DUCHEK: Commissioner Quick, we are asking her
10 for the basis of her opinions and we are trying to
11 demonstrate that her interpretation is not founded on the
12 particular document that we are quoting from. If this was
13 all argument that's proper for brief, then Witness Thompson
14 should never have made the particular allegations that she
15 did in her testimony and quoted from the document in her
16 interrogatory responses.

17 If this isn't -- if this is proper for brief, then
18 Witness Thompson's testimony was improper testimony.

19 MR. COSTICH: With all due respect, Commissioner
20 Quick, the interpretation of a layman of this document is
21 highly relevant in terms of determining what the Postal
22 Service's overall intentions were with respect to
23 classification reform as a whole. The witness has already
24 answered a question stating the basis for her conclusion.
25 Further questioning like this is simply legal argument.

1 COMMISSIONER QUICK: Ms. Duchek, you may proceed.
2 I would hope that you would be able to avoid reading into
3 the record documents that are available in the record as
4 much as possible and that you would avoid repetition.

5 MS. DUCHEK: Thank you, Commissioner Quick. I
6 think there is a way for me to continue my line of
7 questioning by just referring Ms. Thompson to the
8 paragraphs, letting her examine them and then asking my
9 questions --

10 COMMISSIONER QUICK: Fine.

11 MS. DUCHEK: -- based on that without reading it
12 further into the record.

13 COMMISSIONER QUICK: Thank you.

14 BY MS. DUCHEK:

15 Q Ms. Thompson, I had just finished reading a
16 lengthy session -- section and I had asked you if there was
17 any reference within the particular paragraph I read to
18 contribution neutrality.

19 A In that paragraph, there was no word that said
20 "contribution neutrality."

21 Q Thank you.

22 Again, if you would turn back to your response to
23 T200-12, the second paragraph you quote or the portion you
24 quote from the MC95-1 request, I believe appears on page 3
25 of the request and that is the first sentence of the first

1 full paragraph, is it not? And let me just read the portion
2 that you put in your response.

3 "The Postal Service has developed the following
4 guiding principles for use in designing specific
5 classification reform proposals." And does that not appear
6 on page 3 of the MC95-1 request, the first full paragraph?

7 A That's correct.

8 Q And without reading the entire paragraph into the
9 record, again, I want you to examine the first full
10 paragraph on page 3.

11 Can you point to anyplace within that paragraph
12 where contribution neutrality is mentioned?

13 A The specific words "contribution neutrality" do
14 not appear in that particular paragraph. However, you are
15 trying to apply pricing in a more effective manner. Again,
16 it is your entire document where you have previously decided
17 that you are going to be contribution neutral but later you
18 are making the change in impacting special services with an
19 additional net revenue burden.

20 Q So is it your testimony that the phrase "applying
21 pricing in a more effective manner," means contribution
22 neutrality?

23 A No, but you are trying to be more effective in
24 your pricing which I think you are setting frameworks -- I'm
25 mistaken but you're -- you're trying to establish the

1 principles which you are going to use for all, I would
2 assume, future revenue reclassification reform cases.

3 Q And one of those principles, if I understand you
4 correctly, is applying pricing in a more effective manner;
5 is that correct?

6 A That is correct.

7 Q And that does not equate with contribution
8 neutrality, does it?

9 A No, it does not.

10 Q Again if you would refer back to your response to
11 T-200-12, the third paragraph or portion that you quote
12 begins, "Given this systematic approach to classification
13 redesign." Are you with me?

14 A Yes.

15 Q And I believe that that quotation is the first
16 sentence of the second full paragraph on page 3 of the MC95-
17 1 request; is that correct?

18 A It is the first sentence, yes.

19 Q And that paragraph continues on to page 4 of the
20 request; is that correct?

21 A Yes, it does.

22 Q And again, within that paragraph, there is no
23 reference to contribution neutrality, is there?

24 A The specific words "contribution neutrality" do
25 not appear in that paragraph.

1 Q Is there something in that paragraph that you
2 consider to be the equivalent of contribution neutrality
3 even though the phraseology may be different?

4 A Your second sentence, this request addresses those
5 reforms that are ready for the Commission review and the
6 implementation now, implies to me that what you are
7 establishing in this docket or in that docket were going to
8 be followed in future dockets as closely as possible. When
9 the following -- let's see.

10 When you follow on to, I believe it's page 5, and
11 it says this contribution neutrality goal was established
12 because this request was not intended, I must believe that
13 in total, you're trying to establish a framework that's
14 going to be followed in the future, and that it was only
15 applied to these particular classifications because they
16 were ready to be addressed at this point in time.

17 Q So sometimes when we use the words "this request"
18 in MC95-1, it only refers to MC95-1, but other times it
19 indicates an intent to -- "this request" means all future
20 classification reforms. Is that what you're saying?

21 MR. COSTICH: Commissioner Quick, could I have a
22 reference to which "this request" counsel is referring to?

23 MS. DUCHEK: Yes. Your witness just quoted a line
24 of the bottom of page 3 of the MC95-1 request that says this
25 request addresses those reforms that are ready for

1 Commission review and implementation now. She then went to
2 page 5 of the MC95-1 request and was quoting from the first
3 sentence of the first full paragraph, this contribution
4 neutrality goal was established because this request is not
5 intended, et cetera. Those are the two this requests that
6 I'm referring to.

7 COMMISSIONER QUICK: Do you follow now?

8 MR. COSTICH: Yes. I appreciate counsel's help.

9 THE WITNESS: This request obviously -- well, at
10 least if I understand your question correctly, this request
11 is for the one that is referring to MC95-1, but it is saying
12 that it's because of the ones that are ready for
13 presentation now; it doesn't say, but we're going to do
14 something different in the future.

15 BY MS. DUCHEK:

16 Q Can you point me to anywhere in the MC95-1 request
17 where it says we're going to do exactly the same thing in
18 the future?

19 A I don't think you can say there is one particular
20 sentence. I think it's the whole packet together there that
21 has led people to believe this is the framework that's going
22 to be established and these are the principles that we're
23 going to use. And it doesn't specifically say no, we're
24 going to do something different for the future rate cases;
25 it implies, because you're going at one point in time, these

1 are ready to go now, so this is what we're going to present
2 now, it gives the indication that this is what's going to be
3 used as a guiding principle in the future, because it also
4 says it's an ongoing evolutionary process which will
5 continue over the course of the next few years. Now, MC95-
6 1, ⁹⁶⁻²~~95-2~~ and -3 are surely falling within the next-few-years
7 time frame.

8 Q And the portion you quote about the ongoing
9 evolutionary process is from the second full paragraph at
10 the end of page 3 of the MC95-1 request; is that correct?

11 A That's correct.

12 Q And are you stating that the reference there to
13 ongoing evolutionary process refers to contribution
14 neutrality?

15 A The -- no, it's the approach, the systematic
16 approach to classification redesign, the Postal Service
17 classification reform effort, is by necessity an ongoing
18 evolutionary process which will continue over the course of
19 the next few years.

20 Q And is it your testimony that the systematic
21 approach to classification redesign refers to contribution
22 neutrality as opposed to it referring to the preceding
23 paragraph which sets out the guiding principles for use ~~and~~ *in*
24 designing specific classification reform proposals?

25 A I would say that the document in total is trying

1 to establish a systematic approach to classification
2 redesign.

3 Q And that systematic approach is contribution
4 neutrality?

5 A Includes.

6 Q I would like you to look at your response to T-
7 200-12, and it is the final portion of the MC95-1 request
8 that you quote at the very end of the first page of your
9 response beginning "Postal costs, volumes and revenues for the
10 reformed subclasses." Do you see that?

11 A Yes, I see it in my testimony.

12 Q And I believe that appears on page 4 of the MC95-
13 1 request, the second full paragraph, is that correct?

14 A That's correct. In your quotations in T200-12 you
15 skipped a paragraph from the MC95-1 request and that is the
16 first full paragraph on page 4, which begins, "The
17 Commission is specifically requested to issue a ~~recommended~~ *Recommended*
18 ~~decision~~ *Decision* on the reform of four current subclasses of mail."

19 Do you see that?

20 A Yes, I do.

21 Q And would you agree then the paragraph goes on to
22 describe how the classes then existing or -- excuse me --
23 the subclasses then existing were to be replaced by new
24 subclasses, is that correct?

25 A That's correct, and I think I have indicated that

1 by the -- or I tried to indicate some of that by putting the
2 dots after the paragraph. I didn't realize I would have to
3 put, you know -- if you are asking why I left that paragraph
4 out, it's because I didn't think I had to put separate dots
5 to indicate that that paragraph was in there.

6 Q Actually, I think that when you delete a whole
7 paragraph as opposed to just part of a sentence you are
8 supposed to space in between paragraphs and put four dots
9 indicating the beginning of the paragraph rather than the
10 end of the sentence but be that as it may, my question isn't
11 really why you left that out.

12 My question is the portion you quote, "Postal
13 cost, volumes, and revenues for the reformed subclasses" --
14 does that refer back to the paragraph that you left out?

15 A I think in my opinion -- I'm not trying to section
16 this an English example of what things refer to, but to me
17 the reformed subclasses were referring to all subclasses
18 that were going to be reformed.

19 Q And in the next line of the sentence you quote,
20 beginning, "Postal costs, volumes, and revenues" it talks
21 about the result of the classification reform.

22 Again, is it your testimony that that refers to
23 all future classification reform or just to this case?

24 A I think that that refers to all reform cases or
25 classification cases.

1 I am not disputing that they will change in the
2 future.

3 Q Can you show me anyplace in the MC95-1 request
4 where the Postal Service explicitly proposes a contribution-
5 neutral framework for current and future classification
6 reform cases, and again I am asking for an explicit
7 reference.

8 I understand what your interpretation of the
9 document is. I am asking for an explicit reference where
10 the request says that.

11 A That all current and future?

12 Q Yes, a contribution-neutral framework for current
13 and future classification reform cases, where the document
14 explicitly says that the contribution-neutral framework will
15 hold for those cases.

16 MR. COSTICH: Commissioner Quick, the OCA will
17 stipulate that no such sentence exists in the document. If
18 there did, there wouldn't have been any reason for Witness
19 Thompson's testimony in the first place.

20 COMMISSIONER QUICK: Well --

21 MS. DUCHEK: That's fine, Commissioner Quick.

22 I'll move on to another line of questioning -- or
23 actually sort of the same line, something else.

24 BY MS. DUCHEK:

25 Q Ms. Thompson, what record evidence is there that

1 the Postal Service includes Docket Number MC96-3 as a
2 classification reform case comparable to Docket Number MC95-
3 1?

4 A If you are asking me if Special Services is
5 exactly the same format as MC95-1, I would have to say no.

6 However, your request says in MC96-3, "The goals
7 of this request are to reform several special services" and
8 so I would assume that this Special Services is an ongoing
9 reform classification.

10 Q Again, is there any record evidence that the
11 Postal Service includes Docket Number MC96-3 as a
12 classification reform case comparable to MC96-2?

13 A MC96-2 was to follow ^{MC95-1} ~~MC95-1~~ but it has a somewhat
14 different situation in that it is somewhat of a different
15 class of mail.

16 It is a preferred class.

17 Q I understand that. I am not sure you answered my
18 question. I asked, as with the previous question, which you
19 did respond to, what record evidence is there that the
20 Postal Service includes MC96-3 as a classification reform
21 case comparable to MC96-2?

22 A Special Services certainly doesn't generate the
23 same revenues as would be generated by MC95-1, those cases,
24 those particular classifications, if that is what you are
25 asking me.

1 The magnitude of the dollar amount is not
2 comparable but that doesn't indicate that they should be
3 less fairly treated.

4 Q So in other words, MC96-3 and MC96-2 are not
5 comparable in certain ways?

6 A Well, certainly they do try to form -- I believe
7 if you look at your MC96-2 request, it seemed to be
8 following the same precepts that were established in MC95-1,
9 the only difference was it seemed to set aside that the
10 reason for a temporary deviation from contribution
11 neutrality was that those rates were -- it was a preferred
12 subclass and legislation would be setting those rates.

13 Q Would you please refer to your response to
14 USPS/OCA-T-200-11? Do you have that in front of you?

15 A Yes, I do. I'm just briefly reading it. If you'd
16 give me a moment?

17 Q Fine.

18 A Thank you.

19 Q Is it your testimony that the Postal Service
20 should use the same test year as the most recent omnibus
21 rate case for all mail classification cases filed before the
22 next omnibus rate case?

23 A I believe I answered that in my response to you at
24 11 and I'm not in a position to tell you what test year to
25 use. However, it would make it -- as I go on to say, it

1 would have its advantages.

2 Q Are you saying that -- which I think you appear to
3 indicate -- that a test year of 1995 would have been
4 preferable for this case, for Docket No. MC96-3?

5 A I'm not saying preferable. It would certainly
6 have made it easier for comparison purposes.

7 Q So you're not saying there's anything wrong with
8 not using MC -- I'm sorry, test year 1995, correct?

9 A There's nothing wrong. No, that is correct.

10 Q So it isn't necessarily preferable, it's just
11 easier for comparison?

12 A It would have been, yes.

13 Q Do you have any views on how long after an omnibus
14 case it is appropriate to use the same test year as in the
15 omnibus case?

16 A No, I do not. What I was objecting to in the
17 change is that you are asking for an additional \$339.4
18 million to be provided by special services. It appeared to
19 me to be arbitrary. In other words, they were not -- these
20 particular revenues were not attributable to anything that
21 special services did or did not do.

22 Q Is it your testimony that the Postal Service could
23 have used test year 1995 in Docket No. MC96-3?

24 A It could have used whatever it wanted. I can't
25 tell it what to use.

1 Q So you're unwilling to specify how long after an
2 omnibus case, it's appropriate to use the same test year as
3 in that omnibus case, correct?

4 A I don't believe that's my -- it's appropriate for
5 me to say that.

6 Q Would you have a view depending upon the length of
7 time between omnibus cases?

8 A I would certainly hope that if the Postal Service
9 was losing money that they would come in with an omnibus
10 rate case, but no, I have no specific time frame or opinion.

11 Q Now, would you please turn to page 14 of your
12 testimony, lines 8 through 10? In particular, I'm looking
13 at the sentence where you state, "Postal Service ~~witness~~ *witness*
14 Lyons testifies that demand-oriented price adjustments
15 previously deferred should now be addressed."

16 Is it your testimony that pricing adjustments must
17 always be deferred either to an omnibus case or to an
18 interim case where contribution neutrality is achieved by
19 offsetting adjustments from other classes, subclasses, or
20 special services?

21 A I'm sorry, could you rephrase your question?

22 Q Okay. I was using Witness Lyons' statement that
23 certain price adjustments that were previously deferred
24 should now be addressed?

25 A Correct.

1 Q In other words, in this case, in MC96-3. I'm
2 asking you if it's your testimony that pricing adjustments
3 must always be deferred either to one, an omnibus rate case,
4 or two, to an interim case where contribution neutrality is
5 achieved by offsetting adjustments from other classes,
6 subclasses or special services?

7 MR. COSTICH: Commissioner Quick, I believe the
8 Postal Service has already posed questions to the witness in
9 interrogatories concerning the situations in which a
10 noncontribution, neutral case is appropriate.

11 I think it would be helpful if counsel would refer
12 the witness to those interrogatory responses.

13 MS. DUCHEK: Commissioner Quick, the witness is
14 entirely free to refer to her interrogatory responses but,
15 quite frankly, I was confused by some of them. And I am
16 trying to define, unlike what Mr. Costich just said, I am
17 not trying to ask about particular situations where you
18 might want to do a pricing adjustment, I am asking
19 specifically if Witness Thompson is saying that there are
20 only one of two -- there are only two ways to do pricing
21 adjustments. One is an omnibus case and two is an interim
22 case where contribution neutrality is achieved by offsetting
23 adjustments from other classes, subclasses or special
24 services.

25 *It seems*
~~Seems~~ to me she could answer yes those are the

1 only two instances or, no they're not and here's the other
2 instance. That is all I am seeking to clarify here.

3 MR. COSTICH: The witness has already stated in
4 response to an interrogatory that she is in no position to
5 catalogue every possible instance that a non-contribution
6 neutral case would be appropriate. If that's the question
7 or the interrogatory response that counsel wants to inquire
8 about, then I think counsel should refer the witness to that
9 response.

10 MS. DUCHEK: There were several responses along
11 those lines, Mr. Costich. One of them was T400-21, one of
12 them was number 33. The witness is free to refer to either
13 one but it is not clear to me from those interrogatory
14 responses that what you have just said is correct. If that
15 is indeed her testimony that there may be instances where
16 pricing adjustments do not have to be deferred either to an
17 omnibus case or to a contribution neutral interim case with
18 offsetting adjustments, fine.

19 All I am asking her for clarification are these
20 the only two instances in which you can make pricing
21 adjustments or are there others?

22 COMMISSIONER QUICK: Well, rather than the two of
23 you talk about this, why don't you just ask the witness and
24 we will get her answer. She can --

25 MS. DUCHEK: Do you understand the question,

1 Ms. Thompson?

2 COMMISSIONER QUICK: If you can clarify the
3 question and if you are referring to interrogatories, if you
4 could point them out to her, please?

5 THE WITNESS: I understand your question. I
6 believe you are asking me if these are the only two
7 instances and I am saying I gave you an example. I can't
8 think of all possibilities and that was my attempt to give
9 you an example of what I meant.

10 BY MS. DUCHEK:

11 Q So, if I understand correctly, your -- because you
12 can't think of every possible instance, you are saying there
13 could be other instances where pricing adjustments could be
14 appropriate other than an omnibus case or an interim
15 contribution neutral case; is that correct?

16 A That's correct.

17 Q Okay.

18 But you can't specifically define what some of
19 those instances might be?

20 A I am not gifted to see into the future so I can't
21 say that I can.

22 Q Do I take it though that your preference would be
23 contribution neutrality between omnibus rate cases?

24 A Certainly, I think that's more -- seems to be more
25 fair and equitable if you are trying to -- I would say that

1 would be true, yes, if you are trying to increase net
2 revenues.

3 Q And would your preference for contribution
4 neutrality between omnibus cases when trying to increase net
5 revenues change depending upon how far apart the omnibus
6 rate cases are?

7 A I hesitate to say yes it would change or no it
8 wouldn't from the standpoint that, again, I can't see all
9 possibilities but in this particular case it seems that the
10 Postal Service is requesting additional net revenues from a
11 specific class of mail that it cannot tie back to that,
12 being the result of special services. And, to me, in that
13 kind of a situation, no, I think if you need to generate new
14 net revenues, that needs to be done in an omnibus rate case.

15 Q Well, let's take the present example then. If
16 there were this case or another case where you felt that
17 generation of net revenues was not appropriate and there
18 should be contribution neutrality, what if this case
19 occurred more than five years after the last omnibus rate
20 case? Would contribution neutrality still be appropriate
21 under those circumstances?

22 A If the Postal Service was still making money and
23 was not losing money, then perhaps that's true. I think in
24 one of your responses, the Postal Service's responses to an
25 OCA interrogatory, you responded that the achievement of the

1 net income of one billion dollars would facilitate the
2 accomplishment of both prior years' loss recovery and the
3 extension of a rate cycle.

4 Now, it seems to me in this particular case you
5 are going to be making \$1.5 billion and that's well in
6 excess of what was posed by the Postal Service in a
7 response. An additional \$340 million worth of additional
8 revenue from a specific special service seems inappropriate.

9 COMMISSIONER QUICK: Ms. Duchek?

10 MS. DUCHEK: I'm sorry, Commissioner Quick?

11 COMMISSIONER QUICK: If you come to a natural
12 breaking point in your --

13 MS. DUCHEK: One more question and then we are at
14 a good breaking point.

15 BY MS. DUCHEK:

16 Q Ms. Thompson, wouldn't your goal of contribution
17 neutrality create an incentive for the Postal Service to
18 file more frequent rate cases?

19 A Perhaps if it needed money, yes.

20 MS. DUCHEK: We are at a good breaking point.

21 COMMISSIONER QUICK: All right, we will take a
22 ten-minute break and come back at five after eleven.

23 [Recess.]

24 COMMISSIONER QUICK: Ms. Duchek.

25 MS. DUCHEK: Thank you, Commissioner Quick.

1 BY MS. DUCHEK:

2 Q Ms. Thompson, would you please refer to your
3 response to USPS OCA-T-200-5E. In particular, the last --
4 have you had a chance to review the last sentence of 5E?

5 A Yes.

6 Q You posit a hypothetical situation where third-
7 class single-piece rates would, and I'm quoting, quote, be
8 brought up to 100 percent cost coverage, and if I read that
9 sentence correctly, you're implying that if the Postal
10 Service were to file a case aimed at bringing third-class
11 single-piece rates up to 100 percent cost coverage, the
12 Postal Service would not need to make any offsetting
13 adjustments to other classes, subclasses, or special
14 services; is that correct?

15 A What I was trying to say there was that the
16 significance of bringing it up to 100 percent cost coverage
17 would be much less than the priority. It would be
18 approximately 111 million. And I don't know that the impact
19 of that would require that it have -- propose rate increases
20 in other categories.

21 Q And the impact of that meaning bringing third-
22 class single-piece rates up to 100 percent cost coverage.

23 A That's correct.

24 Q And if the Postal Service were to file an ~~the~~
25 interim case proposing only to increase third-class single-

1 piece rates so that they covered attributable costs and
2 nothing more, would that proposal, in your view, meet the
3 criteria of the Act?

4 A What criteria are you specifically --

5 Q In particular, 3622(b)(3) which, as I read it,
6 requires that classes or subclasses of mail make -- cover
7 their attributable costs as well as make a reasonable
8 contribution to institutional costs.

9 A Outside of an omnibus rate case, I hesitate to say
10 that that would be making a contribution to institutional
11 cost; but certainly it would be at least breaking -- it
12 would at least cover its cost at that point.

13 Q I'm not sure you understood my question.

14 A Perhaps not.

15 Q I'm asking that if the Postal Service filed such
16 an interim case, bringing third-class single-piece rates up
17 to 100 percent, which is what your response talks about --
18 in other words, bringing third-class single-piece rates up
19 so that they covered their attributable costs -- if that
20 case proposed to bring third-class single-piece rates up to
21 a level where they covered attributable costs and did not
22 make a contribution to institutional costs, would such a
23 proposal meet the criteria of the ^{Act}~~act~~, in your view?

24 MR. COSTICH: Commissioner Quick, I think we're
25 into the realm of legal analysis of statutory language. I

1 don't think this witness is the proper person to be asking
2 for an interpretation of the Act.

3 MS. DUCHEK: Commissioner Quick, I'm not asking
4 for a legal opinion per se. Further~~more~~more, pricing witnesses
5 who are not lawyers testify on the criteria of the Act in
6 front of this Commission all the time. Ms. Thompson posited
7 this situation in her response and I'm just trying to follow
8 up her understanding of whether such a situation would meet
9 the criteria of the Act. I'm perfectly willing to concede
10 that she is not a lawyer; I just want her opinion on the
11 matter.

12 COMMISSIONER QUICK: And you were in the process
13 of rephrasing your question, weren't you? Is that correct?

14 MS. DUCHEK: I did, and I'm not sure if Ms.
15 Thompson understands it or not.

16 COMMISSIONER QUICK: Perhaps you'd like to ask it
17 again and then we'll proceed from there.

18 MS. DUCHEK: Okay.

19 BY MS. DUCHEK:

20 Q Ms. Thompson, if the Postal Service were to file
21 an interim case -- by interim case, you understand I mean in
22 between omnibus rate cases -- where we proposed to bring
23 third-class single-piece rates up to such a level that they
24 covered their attributable costs but did not make any
25 contribution to institutional costs -- in other words, they

1 were brought up to 100 percent cost coverage -- would such a
2 proposal, in your opinion, as a non-lawyer, meet the
3 criteria of the Act, in particular 3622(b)(3)?

4 A If I'm not mistaken a similar question was posed
5 from the standpoint if you're trying to bring it up to 100
6 percent cost coverage and it was below cost, my concern
7 would be certainly at least it would be addressing -- it
8 would not cause you to lose more money. But also, if it's
9 losing money that is not really part of the contingency
10 provision, you'd have to address that, you know, and if it
11 can be assigned that no, that that loss to bring it up to
12 100 percent cost coverage wasn't going to be addressed by
13 the contingency and there was a revenue loss for the Postal
14 Service and the loss was -- obviously, if they were not
15 making their -- if they were losing money, then that may be
16 a situation where, yes, it would be justifiable.

17 Q And it would be justifiable under the conditions
18 you've just posited without having single-piece third-class
19 make any contribution to institutional costs; is that
20 correct?

21 A Well, if I remember correctly, I think they are
22 supposed to be making a contribution to institutional costs,
23 and so I can't say that they shouldn't be. I think the most
24 fair rates would be established in an omnibus rate case.

25 Q So the hypothetical that I've proposed of a case,

1 an interim case bringing single-piece third-class rates up
2 only to 100 percent may not meet the criteria of the Act; is
3 that what you're saying?

4 A It may not. That is correct.

5 Q But it was your testimony in some instances that
6 it might as well; is that correct?

7 A I think you asked me some specifics as far as when
8 would a targeted or a limited rate case be appropriate, and
9 I have tried to give examples, but again, I can't foresee
10 every particular possibility.

11 Q Would you please refer to your response to T200-
12 6, specifically the last paragraph.

13 A Of which part, please?

14 Q I'm sorry, the last paragraph on the second page
15 of the response. Specifically, I'm looking at the portion
16 where you state, quote, "In my view, it is those rates -- it
17 is those whose rates are near or below cost who are getting
18 the best deal." Do you see where I'm referring to?

19 A Bear with me, I'm trying to find that.

20 Q It's the second page of T200-6, second full
21 paragraph, last paragraph on the page, beginning the middle
22 of the second line, "Although, in my view, it is those whose
23 rates."

24 A All right.

25 Q Okay. I'm going to hand you Exhibit C from

1 Witness Lyons testimony, USPS-T1.

2 MS. DUCHEK: And I'm going to hand two copies to
3 the reporter and ask -- marked USPS-XE-2 -- and ask that it
4 be transcribed as a cross examination exhibit. And for Mr.
5 Costich's benefit, although there are a number of numbers on
6 this page, there is no mathematical calculation required
7 that is so difficult that it cannot be answered on cross
8 examination.

9 CHAIRMAN GLEIMAN: Yes, please include these
10 copies marked as exhibit whatever it is.

11 MS. DUCHEK: Cross examination Exhibit 2.
12 [Cross-examination Exhibit USPS-
13 XE-2 was marked for identification,
14 received into evidence and
15 transcribed into the record.]
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EXHIBIT C
USPS-T-1

Selected Special Service Cost Coverages
(Revenue and Cost in Thousands)

Special Service	Before Rates			After Rates		
	Revenue	Cost	Coverage	Revenue	Cost	Coverage
Certified	318,574	297,811	107%	416,705	285,880	146%
Return Receipt	289,135	227,423	127%	365,617	214,021	171%
Registered	105,563	73,106	144%	104,110	72,419	144%
Insurance	49,162	34,254	144%	62,681	42,249	148%
Post Office Box	528,513	529,374	100%	662,973	516,598	128%
Special Delivery	2,086	1,753	119%	-	-	-
Stamped Cards	-	-	-	8,426	4,950	170%

Sources:

Revenues from USPS-T-1, Workpaper E, page 2

Revenue and Cost for Stamped Cards from USPS-T-8 at Table XXX.

Cost for Certified, Registered, Insurance, Post Office Box, Special Delivery Before Rates, Exhibit USPS-T-5F.

Cost for Certified, Registered, Insurance, Post Office Box, Special Delivery After Rates, Exhibit USPS-T-5I.

Cost for Return Receipts from USPS-T-1, Workpaper D at 3.

USPS-XE-2
1466

1 BY MS. DUCHEK:

2 Q Ms. Thompson, if you will look at Exhibit C to
3 Witness Lyons testimony, the before rates column for Post
4 Office boxes shows a revenue figure of 528,513 -- that's in
5 thousands -- and a cost figure of 529,374, again in
6 thousands. The before rates revenue and cost figures
7 reveal, do they not, that the Post Office box line shows
8 that Post Office boxes are not covering costs?

9 A It shows that costs are slightly larger than
10 revenue, but the cost coverage is still 100 percent.

11 Q Referring back to your response to T200-6, "In my
12 view, it is those whose rates are near or below cost who are
13 getting the best deal," does this exhibit show you that Post
14 Office box customers are indeed getting the best deal?

15 A In relation to what?

16 Q In relation to your statement. You had said that
17 those whose rates are at or near or below cost are getting
18 the best deal.

19 A I think if you look at third-class single-piece,
20 they're getting an even better deal.

21 Q But you don't dispute that Post Office box
22 customers under your statement are getting a good deal,
23 correct?

24 A A hundred percent cost coverage, yes, is a good
25 deal.

1 Q Would you please refer to your response to T200-
2 8A? In particular, the second sentence of subpart A where
3 you state that going from negative contribution to zero
4 or -- contribution obviously represents an increase in net
5 income.

6 My question is, how can a change from negative
7 contribution to either zero or positive contribution be
8 considered contribution neutral?

9 A This question asked me if a subclass has costs
10 that exceed the revenue, any rate increase would be designed
11 to correct the situation, cannot be contribution neutral and
12 I am saying going from negative contribution to zero
13 contribution represents an increase in net revenue. But on
14 the other hand, if you are trying to maintain contribution
15 neutrality, there are likely to be categories that can --
16 that are in excess and can be brought down so that you
17 effectively have zero contribution or contribution
18 neutrality.

19 Q Okay, that's what I wanted to clarify. If only
20 that one change is made, going from negative to zero or
21 positive contribution, it is not contribution neutral. It
22 is contribution neutral if there are offsetting changes,
23 correct?

24 A That is correct.

25 Q Is it your testimony that any time the Postal

1 Service wants to raise a rate for one category to cover its
2 costs in between omnibus cases, it must lower rates for
3 other categories that are above the cost coverage level
4 established by the last omnibus case? In other words, there
5 must be this offset?

6 A That's not what I am saying in my testimony. My
7 testimony is trying to say you have established a framework
8 and you need to follow the framework. Otherwise, when you
9 don't, when you have some classes of mail being targeted for
10 a rate increase, it is unfair and inequitable when those
11 rates or those classes are not contributing to the loss.

12 The Postal Service is presently making money.
13 They are making 1.5 billion. 340 additional million, to me,
14 is not warranted from -- is not warranted to be targeted
15 towards special services.

16 Q But that wasn't my question and forgive me if I
17 didn't phrase it properly.

18 I guess I am trying to ask if in between omnibus
19 rate cases the Postal Service wants to raise a rate for a
20 single category that is below cost, must it lower rates for
21 other categories to do this offset and achieve contribution
22 neutrality?

23 MR. COSTICH: Commissioner Quick, the witness's
24 testimony deals with classification reform, not pure rate
25 cases. I fail to see the relevance of this question to the

1 witness's testimony.

2 MS. DUCHEK: Well, I believe the witness has
3 answered some interrogatories which talk about, and I think
4 I am quoting exactly, selective rate increases. So that is
5 what I am inquiring about.

6 If it will make you happier, let's -- let's assume
7 that the one category that is not covering costs that the
8 Postal Service wants to raise the rate for is also somehow
9 being reclassified so that there is a classification change
10 involved and it is designated as a classification case.

11 COMMISSIONER QUICK: Do you understand the
12 question or do you want the question repeated?

13 MS. DUCHEK: I can ask it again.

14 BY MS. DUCHEK:

15 Q All I am trying to get at, Ms. Thompson, and if
16 you don't know or can't conceive of every possible
17 circumstance, that's fine. I am just trying to clarify if
18 there is a situation where the Postal Service wants to come
19 in with an interim case, be it a rate or classification
20 case, let's assume it's a classification case but it
21 involves a selective rate adjustment to one category of mail
22 that is currently below cost.

23 Must the Postal Service in filing that case lower
24 rates for other categories that are above the cost coverage
25 level established by the last omnibus case in order to

1 achieve contribution neutrality or are you positing a
2 situation where it would be admissible for the Postal
3 Service to file as an interim case the case making just that
4 one classification and rate adjustment? In other words,
5 bringing that one category up to 100 percent cost coverage?

6 A My testimony is addressing classification reform;
7 it is not trying to attempt to define classification cases
8 in all instances. So I cannot say that, yes or no. I am
9 just positing it in a classification reform case.

10 Q So is it fair to say that you can't say in all
11 instances that would be improper but if it is a case of
12 classification reform, then this offset has to be performed
13 rather than a classification reform case that files simply
14 to bring the one category of mail up to 100 percent cost
15 coverage?

16 A If the Postal Service is filing a classification
17 case and they want to target one specific class to bring it
18 up to 100 percent cost coverage, I can't foresee whether
19 that would be inappropriate or appropriate; I have no
20 opinion.

21 Q Thank you, that's fine.

22 Would you please turn in your response to T200-
23 8B. In particular, I am looking at the -- I think it is the
24 third sentence where you say, "therefore it is inappropriate
25 to assume that the cost coverages established in Docket

1 Number R94-1 are appropriate for Docket Number MC96-3." Do
2 you see that sentence?

3 A Yes, I do.

4 Q If that is your opinion, then what was the purpose
5 of preparing OCA Library Reference 6 which sought to compare
6 cost coverages with the R94-1 cost coverages?

7 A I was not -- I did not prepare Library Reference
8 6. What this is trying to show is that you have two
9 different test years and you cannot compare two different
10 test years and expect the cost coverages to be the same.

11 Q If you can't expect the cost coverages to be the
12 same, then please explain the statement you made in T-200-9,
13 Subpart A and B, second paragraph, the end of the first page
14 of your response, where you're talking about cost coverages
15 for FY96 being permitted to remain below Docket No. R94-1
16 recommendations.

17 If the cost coverages can't be compared, then
18 what's the purpose of that statement?

19 A You can't directly expect that in the different
20 test years that the cost coverages will be the same. What
21 I'm trying to point out is that in this particular case,
22 you're addressing or requesting that special services
23 provide additional funds and in this case, it seems like
24 your asking for revenue is totally opportunistic. You're
25 taking advantage of a situation that's presented and you're

1 requesting the revenues because that's what fell out of the
2 rates you requested.

3 Q But why is it relevant to even talk about cost
4 coverages for 1996 that are permitted to remain below the
5 R94-4 recommendations when you've just said they can't be
6 compared?

7 A Let me finish rereading the whole --

8 Q That's fine.

9 A If you don't mind. What I was trying to
10 understand in this particular case is that if you really are
11 trying to fix cost coverages that are out of line, in other
12 words, are below and they are not making -- are below what
13 they should be, then why aren't you fixing all of the cost
14 coverages that are below?

15 It's really not related other than I'm trying to
16 say that why pick on special services; why not pick on other
17 ones that are not addressing their cost coverages?

18 Q Would you please refer to your response to
19 T-200-8B -- I mean T-900, Subparts A and B -- T-200-9,
20 Subparts A and B, in particular, your third sentence
21 beginning, "Extra revenue is being sought solely from those
22 special services that had the bad luck to be ready for
23 reclassification"?

24 Is it your testimony there that anytime the Postal
25 Service has some reclassification initiatives ready, it must

1 defer them until all initiatives are ready?

2 A No, that is not my testimony. What I'm saying
3 here is that special services seemed to be or was ready --
4 you apparently wanted an additional \$340 million and they
5 had the bad luck to be the ones that got saddled with the
6 additional revenue requirement.

7 Q Ms. Thompson, would you please turn to your
8 revised response to T-400-21 and I believe that's the
9 revision dated November 13th?

10 A I don't have one that's dated November 13th.

11 MR. COSTICH: The second and third page dated
12 November 13th.

13 THE WITNESS: All right.

14 MS. DUCHEK: Yes.

15 THE WITNESS: All right.

16 BY MS. DUCHEK:

17 Q Yes, I'm sorry, the first page didn't have the
18 revised date on it, just the cover page and the second and
19 third pages.

20 The first paragraph, where you state, "When the
21 primary purpose of a rate increase is to generate new net
22 revenue, then an omnibus rate case is appropriate." This is
23 under Subpart B.

24 A I'm sorry, did you say 21?

25 Q T-400-21.

1 A Subpart B, I'm sorry, yes, okay.

2 Q Do you see where I am on Subpart B?

3 A Yes, I do.

4 Q Is it your testimony that the primary purpose of
5 Docket No. MC96-3 is to generate new net revenue?

6 A I don't know what the specific purpose is.
7 Certainly the rates are generating additional \$340 million
8 and it seems to me that there was no reason given for why
9 you needed the additional net revenues or why special
10 services was being targeted for this additional \$340
11 million.

12 Q So it's not your testimony that the primary
13 purpose of this docket is to generate new net revenue?

14 A It is -- it seems to be one of the purposes.

15 Q But not the primary one?

16 A We may be in a semantic thing, but no, it is a
17 purpose. I don't know that it is the primary purpose.

18 Q I am focusing again on subpart (b) of your
19 response to T400-21, beginning the last sentence, where you
20 talk about "the predecisional exclusion of certain categories
21 of mail from a rate increase designed to generate new net
22 revenue."

23 Do you see where I am?

24 A Yes.

25 Q What do you mean by the term predecisional

1 exclusion?

2 A It appears to me that you have made a decision to
3 just target Special Services for this additional amount of
4 money and for no good reason it has not been -- the Board of
5 Governors has not said you need the \$340 and you need to get
6 it from Special Services, nor have I seen any thing that
7 says why you need that additional \$340 million to be from,
8 to come from Special Services.

9 They were not the result of -- they were not the
10 cause of that need.

11 Q What are the certain categories of mail that were
12 predecisionally excluded?

13 A Well, you obviously did not include, you know,
14 Third Class single piece. That's one that is falling below
15 costs.

16 Priority is extremely -- doing quite well.

17 You did not include Certified Mail or money
18 orders -- so it seems like you have only picked a certain
19 few that you are going to get this money from.

20 Q And it is your testimony that we didn't include
21 Certified Mail?

22 A I'm sorry, not Certified, but -- I'm sorry -- Cash
23 on Delivery -- C.O.D. I apologize.

24 Q Any others?

25 A I'm sure there are but I haven't, you know -- do

1 you want me to go through the list of what is not included
2 in this docket?

3 Q Would it be everything or would it be everything
4 that is below cost?

5 A Well, you could also address ones that are above,
6 have extremely high cost coverages.

7 Q Okay, so is it your testimony that we
8 predecisionally excluded from this filing all categories of
9 mail where they are not covering attributable costs as well
10 as those categories of mail where cost coverages are higher
11 than recommended in Docket Number R94-1?

12 A What I am trying to say is that you have -- that
13 it seems to me unfortunate that Special Services was ready
14 or these particular categories were ready to be filed for a
15 classification reform and the rates that fell out provide an
16 additional \$340 million and there is no real good reason for
17 requesting an additional \$340 million at this point in time.

18 Q So if we had filed this case to achieve
19 contribution neutrality, that is to correct those rates
20 where categories are below cost offset by whatever other
21 adjustments, that would have been okay?

22 A Well, if you had included -- I mean it seems that
23 you have targeted select ones.

24 You haven't even addressed all of the Special
25 Services.

1 Again, you didn't address C.O.D. You didn't
2 address money orders.

3 Q But what I am trying to get at is that you are the
4 one who made the statement that certain categories of mail
5 were predecisionally excluded and are you saying that all
6 categories that are out of line, to use your terminology in
7 terms of cost coverages, that are higher than recommended in
8 Docket Number R94-1, those that are lower, those that aren't
9 covering costs, that all of those categories of mail were
10 predecisionally excluded?

11 A It would seem to me that you have made a choice of
12 what you are going to -- what you are going to generate
13 additional revenues and it was what you presented. You did
14 not request that additional revenues be generated in R94-
15 1 -- I'm sorry, MC95-1. And it seems to me that you have
16 done -- made a decision that you are not going to treat this
17 particular category similarly as you did MC95-1 categories.

18 Q And in order to treat it similarly, we would have
19 had to include off -- other categories of mail where we
20 could have made offsetting adjustments?

21 A It's possible that you could have done that, yes.

22 Q We could have or we should have?

23 A Well, I think within the same category, you could
24 have made changes if you had included money orders and COD.

25 Q I don't want to put words in your mouth but what

1 I'm hearing is you didn't like the categories we picked for
2 this case because it wasn't contribution neutral. We could
3 have picked other categories to make it contribution neutral
4 but you are unwilling to define what those categories should
5 be or how many of them there would have needed to be in this
6 case?

7 A I think what I am trying to say is that the Postal
8 Service selected categories to file and they requested that
9 they generate additional revenues. It is not my position or
10 my -- I am not in the position to tell the Postal Service
11 what they can or cannot file but they have established a
12 framework which they should follow.

13 Q Still on T400-21, the second paragraph of subpart
14 B where you state, "Then a targeted rate increase designed
15 solely to recover the new demonstrated revenue burden may be
16 appropriate."

17 Do you have that in front of you?

18 A Yes, I do.

19 Q Am I reading too much into that sentence to read
20 it to mean that you are saying that in that instance the
21 Postal Service could only bring that category of mail up to
22 100 percent cost coverage?

23 A As opposed to what?

24 Q As opposed to 110, 120, any appropriate percentage
25 so that category of mail would make a contribution to

1 institutional costs?

2 A Again, what I was trying to do was pose an example
3 and if it is making -- if the contingency provision -- if
4 the Postal Service is losing money and the funds it tries to
5 generate or for whatever reason it is losing the money, it's
6 not provided in the contingency provision and the costs can
7 be attributed to this particular class of mail, then it may
8 be appropriate to raise a rate for that but I think the most
9 fair and equitable rates are established in an omnibus rate
10 case when you can examine all the rates.

11 Q But I am trying to get at, in that particular
12 category are you saying it would be enough to bring it up --
13 it could solely file a case to bring that category up to 100
14 percent, it couldn't file a case and propose 120 percent
15 cost coverage for that category?

16 A Again, you are trying to ask me to foresee into
17 the future which I can't and I have tried to give you an
18 example of what I think would be appropriate.

19 There may be a case or a time period when that
20 would be appropriate but to say that it's going to be 110 is
21 appropriate or 120, I cannot say.

22 Q Okay, all I am trying to get at is you are saying
23 there that in some circumstances it may be appropriate to
24 bring an interim case for a category of mail that is not
25 covering its costs and to raise those rates or to propose

1 raising those rates not only to cover the costs but to make
2 some sort of appropriate contribution to institutional
3 costs; is that correct?

4 A I hesitate to say "yes." I am more comfortable
5 saying at least I know if you bring it up to cover its cost
6 it is at least making -- you are not going to be losing more
7 money because of that case.

8 I am qualifying that because I can't foresee of an
9 instance where it would but I don't want to say with 100
10 percent assurance, no, you can't do this or yes you can.

11 Q So is it fair to say that you're saying that it
12 certainly would be permissible to bring that category up to
13 100 percent cost coverage, the category of mail that was
14 below cost in an interim case? That certainly would be
15 permissible and, in some circumstances, it may also be
16 permissible to bring that category up to a level where it
17 was making some contribution to institutional costs as well?

18 A I won't say that that is not a possibility, yes.

19 Q And you're unwilling to define when those
20 circumstances might be appropriate?

21 A That is correct. I don't think it is my -- that
22 it's appropriate for me to do that.

23 Q In that same response, T400-21, you give some
24 examples where you talk about certain categories of mail
25 being either 10 percent above or 10 percent below the

1 Commission's recommendations in Docket Number R94-1.

2 Is 10 percent a limit?

3 A No, it was just a -- what I considered maybe a
4 significant number at that point in time. Twenty percent
5 would be just as well, five percent is a possibility. It is
6 for illustrative purposes.

7 Q What about one percent; would that be a
8 possibility too?

9 A I would certainly hope that one percent would not
10 necessarily require the Postal Service to request additional
11 revenues but it's possible.

12 Q In your response to T-400-21, you talk about what
13 we've been discussing this morning, offsetting adjustments
14 that if you want to raise rates or fees for one category of
15 mail, you can lower them for another in order to achieve
16 contribution neutrality. I want to explore a little bit how
17 this might work in particular circumstances.

18 Let's say that third class, single piece is below
19 cost and let's say it's the only category of mail that's
20 below cost, but let's also say there are four other
21 categories that are more than 10 percent above -- with cost
22 coverages more than 10 percent above the Commission's
23 recommendations in Docket No. R94-1.

24 If the Postal Service were to file an interim case
25 where it wanted to bring third class, single piece up to a

1 level where it was covering its attributable costs and
2 making a contribution to institutional costs, and it wanted
3 to lower one of these other -- it wanted to offset and
4 you've got these four other categories that are more than 10
5 percent above the cost coverages recommended in Docket
6 No. R94-1, how does the Postal Service decide which one of
7 the four to lower or does it lower them all by the same
8 amount even if this would still leave those categories
9 above, more than 10 percent above the cost coverages
10 recommended by the Commission in Docket No. R94-1?

11 MR. COSTICH: Commissioner Quick, the witness has
12 not attempted to establish any general principle of when the
13 Postal Service can request increased revenues. The witness
14 has explicitly said she can't catalog every possible
15 situation, she attempted to give a single example of what
16 she said was a good reason to ask for extra revenue.

17 Going through all of these speculative
18 possibilities is an endless exercise. There's a billion of
19 them. There's just no point to this.

20 MS. DUCHEK: Commissioner Quick, with all due
21 respect there certainly is a point to it. Ms. Thompson
22 filed testimony saying that the changes proposed in this
23 docket are arbitrary, discriminatory, et cetera and she's
24 thrown out some examples of, in her mind, when such case is
25 appropriate and when it wouldn't be appropriate.

1 I think it is highly relevant to her testimony to
2 find out, through some hypotheticals, how she envisions this
3 working. I want to try to have her say under certain
4 circumstances, what would not be arbitrary, discriminatory,
5 et cetera because she has said that this case is.

6 I think it's highly relevant to have her talk
7 about circumstances and give her opinion on whether those
8 circumstances would fall within the parameters of
9 nonarbitrariness and nondiscrimination that she's
10 established and when they wouldn't.

11 If she can't answer the question because she
12 doesn't know, then she can just say she doesn't know, but I
13 don't think she should be excused from answering them.

14 MR. COSTICH: Commissioner Quick, it's perfectly
15 relevant to inquire of the witness why she has categorized
16 what the Postal Service has explicitly proposed in this case
17 as arbitrary, capricious, discriminatory, et cetera.

18 To invent speculative situations that are not part
19 of this case and probably will never be part of any case is
20 just a total waste of time. It doesn't help determine why
21 the Postal Service's proposal is arbitrary, capricious or
22 discriminatory.

23 MS. DUCHEK: But Commissioner Quick, we're not
24 talking about the Postal Service's testimony here, we're
25 talking about Ms. Thompson's testimony.

1 MR. COSTICH: That's the only thing we're talking
2 about.

3 MS. DUCHEK: Mr. Costich, I thought Ms. Thompson
4 filed a piece of testimony and I think the Postal Service is
5 entitled to inquire into that. If Ms. Thompson can't answer
6 the questions, fine, but I think we should be allowed to ask
7 them.

8 The whole purpose of a hypothetical is just that,
9 it is a hypothetical, ^{imagine}~~image~~ this situation, what would your
10 testimony be or what would you do in that situation.

11 MR. COSTICH: The Postal Service is perfectly
12 capable of submitting any testimony it wants on these highly
13 speculative, totally unlikely situations. They have nothing
14 to do with what the Postal Service has requested in this
15 case and do not help anyone evaluate the Postal Service's
16 proposal.

17 MS. DUCHEK: Commissioner Quick, she put it in
18 controversy by her testimony and by her interrogatory
19 response to T-400-21. She's the one who started talking
20 about offsetting adjustments and how if something is 10
21 percent above or 10 percent below, you need to -- there are
22 appropriate circumstances to make these offsets. All I'm
23 trying to do is explore that.

24 MR. COSTICH: Commissioner Quick, the first
25 sentence of her response to 21B is, "I am not in a position

1 to catalog all possible situations." This is just a waste
2 of time.

3 COMMISSIONER QUICK: Time is what we have a lot of
4 here. That's why we're here, in order to get on the record
5 whatever parties want to get on the record.

6 Now, I would say, however, Ms. Duchek, if you want
7 to make a point, let's have a reasonable number of
8 hypotheticals you have to deal with so that we can move on.

9 MS. DUCHEK: I just have several, Commissioner
10 Quick -- well, more than one and less than ten.

11 COMMISSIONER QUICK: Several?~~few?~~ *Few?*

12 MS. DUCHEK: I'll count. I'll count.

13 COMMISSIONER QUICK: That's all right. Several is
14 more than a few.

15 MS. DUCHEK: I think I have three or four.

16 COMMISSIONER QUICK: Oh, well, that sounds like a
17 few to me, so ^{go} ahead and proceed, please.

18 MS. DUCHEK: Thank you.

19 BY MS. DUCHEK:

20 Q Do you remember my question, Ms. Thompson, or do
21 you want me to repeat it?

22 A I would appreciate it if you would repeat it.

23 Q Okay. It's a hypothetical where -- all of these
24 will be hypotheticals where I'm trying to determine what
25 your views would be if the Postal Service filed an interim

1 case trying to make these adjustments.

2 First is, one subclass of mail, let's say third
3 class, single piece, is below cost. The Postal Service
4 decides they want to make an adjustment to the rates to
5 third class single piece to bring them up to 100 percent
6 cost coverage, plus whatever some -- I'm not going to
7 specify the percentage, but some appropriate percentage to
8 institutional cost.

9 At the same time that there is this one category,
10 third class single piece that's below cost, there are four
11 other categories of mail. If you want to, I'll make up
12 names for them, but let's just say four categories that are
13 currently more than 10 percent above the cost coverages
14 recommended in the last omnibus rate case.

15 The Postal Service wants to make an offsetting
16 adjustment. How would it go about it with those four
17 categories? Would it pick one to lower and leave the three
18 other out of line, to use your terminology? Would it lower
19 all four by differing amounts, by the same amount? That's
20 what I'm trying to explore.

21 A What I didn't hear in this is it sounded to me as
22 though this were a general classification case. I'm
23 addressing classification reform where I state it is
24 possible to -- I think the original question that started
25 this was, if you raise one person's rate or one class of

1 mail's rate, aren't you going to get more revenue than you
2 would have had they not had an increase? My response to
3 that interrogatory was yes.

4 I also follow it up with, if you wanted to
5 maintain contribution neutrality, then it is also possible
6 to lower somebody else's rate. That's what I was trying to
7 get at in that particular situation.

8 Q I understand that and I'm just asking you for some
9 guidance in the hypothetical that I've posed, whose rates
10 would be lowered out of the four categories? Would it be
11 all right for the Postal Service to just pick one category
12 and lower the rate; would it pick all four, two out of the
13 four? What would you do in those circumstances?

14 A You're asking me to make a decision that really is
15 the Postal Service's prerogative and therefore, I don't
16 think it's appropriate for me to address that.

17 Q Well, let me rephrase it then. Which option do we
18 take to get you not to file testimony to say that whatever
19 we do is arbitrary and discriminatory?

20 A When you have filed a position that targets one
21 class of mail for additional net revenues and there is no
22 reason given why you need this particular class of mail to
23 generate an additional \$340 million, then perhaps it would
24 be -- you'd have to justify why you're raising the rates.

25 Q But I am talking about a specific situation where

1 you are trying to raise the rates because one category of
2 mail is below cost. You have already said that that might
3 be a situation where an interim case would be appropriate,
4 and I am saying if we wanted to make an offsetting
5 adjustment to achieve contribution neutrality, where does
6 that offsetting adjustment come from if you have got four
7 other categories that are above, that are out of line, to
8 use your terminology, with the cost coverages recommended in
9 the last omnibus case?

10 MR. COSTICH: Commissioner Quick, the hypothetical
11 is assuming a situation that has nothing to do with this
12 case, namely it's not classification reform. It's simply
13 trying to raise a rate to cover costs.

14 Nobody has said that there is any requirement that
15 you be contribution neutral in a situation like that --
16 precisely the opposite. That was offered by the witness as
17 an example of one situation where she would think the Postal
18 Service had a good reason to request a rate increase that
19 wasn't contribution neutral.

20 I don't understand what the point of these
21 questions is. They have nothing to do with the Postal
22 Service's proposal and they have nothing to do with what the
23 witness has testified about.

24 MS. DUCHEK: Well, Commissioner Quick, in her
25 response to T400-21, she says I can hypothesize a situation

1 in which a selective rate increase would be rational, and
2 then she goes into a discussion of cost coverages and 10
3 percent above and 10 percent below and you might make an
4 offsetting adjustment. This was her interrogatory response
5 and I am just trying to determine how this would work.

6 If Ms. Thompson's response is she doesn't know how
7 it would work in the situation that I have posited, I am
8 perfectly willing to accept that answer.

9 COMMISSIONER QUICK: Is that a question?

10 [Laughter.]

11 COMMISSIONER QUICK: Was that the answer?

12 MS. DUCHEK: If that is what Ms. Thompson's
13 answered, that she doesn't know how --

14 COMMISSIONER QUICK: I thought I heard her say
15 that at some point or that she wasn't --

16 MS. DUCHEK: If that's what she said, it wasn't
17 clear to me.

18 COMMISSIONER QUICK: Perhaps you should ask -- how
19 many of these hypotheticals have we to be gotten through?

20 MS. DUCHEK: I have three more and obviously --

21 COMMISSIONER QUICK: Well, state them as directly
22 as you can. Let her respond --

23 MS. DUCHEK: Okay --

24 COMMISSIONER QUICK: And don't, you know -- and
25 let's go on to the next one.

1 MS. DUCHEK: Fine, and if her response is for each
2 of the four that she doesn't know how it would work, that's
3 perfectly willing and if that is what she said and I did not
4 pick that up, I apologize and she can restate it.

5 THE WITNESS: If I can shorten this, I wouldn't
6 know which one you would choose.

7 I was trying to give you an example and that's --

8 BY MS. DUCHEK:

9 Q That's fine. That's all I want -- that's a
10 perfectly reasonable response. Thank you.

11 The next situation, and this is much simpler, what
12 if the Postal Service decides to lower rates or fees for one
13 category of mail, having determined that the work-sharing
14 efforts of mailers in that group are not being adequately
15 recognized?

16 In other words, they are paying too much.

17 In order to make this correction, in other words
18 to lower the rates for the work-sharing mailers, would it be
19 necessary to raise the rates or fees of another below-cost
20 category to offset that?

21 A Again, is this in classification reform or just a
22 general classification case.

23 Q It would be an interim case between omnibus rate
24 cases. You can assume it as a classification case where
25 Postal Service is trying to recognize work sharing efforts

1 of one category of mail.

2 A You know, anything is possible. That would be
3 perhaps a possibility. I don't know --

4 Q And would you -- let me rephrase that.

5 That would be a possibility for the Postal
6 Service, to make that correction, lower the rates for the
7 work-sharing efforts of mailers in that group without
8 raising rates of someone else to offset that?

9 A I am certainly saying that I can't prevent the
10 Postal Service nor can I say that the Postal Service cannot
11 do that, if that is your question.

12 Q And it would not be inappropriate in all
13 circumstances, is that correct?

14 A I don't know that it would be inappropriate, no.

15 Q But you can't say whether it would be appropriate
16 either?

17 A That is correct.

18 Q Okay. ~~that if~~ *Assume that if* one category of mail is below cost
19 but no other categories of mail have a cost coverage, to use
20 your terminology again, that are out of line with the
21 Commission's R94-1 recommended decision.

22 Is it your testimony that the Postal Service would
23 then have to wait until the next omnibus rate case to adjust
24 the below-cost category?

25 A Certainly, off the top of my head, given your

1 hypothetical I see no reason why it couldn't ask -- put in a
2 case that if it is below cost and if those losses cannot be
3 covered by the contingency provision and the Postal Service
4 is in a loss position that, yes, they could enter an interim
5 position to bring -- enter an interim case to bring it up to
6 meet its costs.

7 Q Without offsetting adjustments from other
8 categories?

9 A It's a possibility.

10 Q What if it was the same situation with the one
11 category of mail being out of line and nothing else was but,
12 by out of line, instead of that category of mail being below
13 cost, it had a cost coverage that was more than 10
14 percentage points lower than recommended by the Commission
15 in the last omnibus rate case? Could a case to make that
16 adjustment and no others, would it be appropriate in some
17 circumstances?

18 In other words, the category is covering its costs
19 but we just want to adjust and raise the level of
20 contribution to institutional costs.

21 A Again, I think you are trying to tie it with the
22 last omnibus rate case and if you are using different test
23 years or -- you won't have the same cost coverage as have
24 been established by the Commission in its recommended
25 opinion. So I am somewhat confused as far as are you

1 assuming that it is the same test year or is it just
2 something that's -- by the way, it's too high and we'd like
3 to lower it?

4 Q Assume the same test year.

5 A And it's in excess of what the Commission
6 recommended?

7 Q It's too -- the category is too low.

8 A It's too low?

9 Q Yes. But would it be appropriate to adjust that
10 while holding everything else constant?

11 MR. COSTICH: Commissioner Quick, again, this has
12 nothing to do with the witness's testimony. The witness has
13 testified that what the Postal Service has done is
14 unexplained.

15 MS. DUCHEK: It's my last one.

16 MR. COSTICH: It still has nothing to do with the
17 witness's testimony.

18 If the Postal Service can -- the Postal Service
19 can propose anything it wants if it's got good reasons.
20 That's the only thing the witness said. Give me the
21 reasons. You aren't giving her the reasons as part of these
22 hypotheticals.

23 COMMISSIONER QUICK: Let's go ahead and answer the
24 question and move on.

25 THE WITNESS: Again, the contingency is set up to

1 address extraordinary things. If the rates were below and
2 the Postal Service was in a loss position, it is possible
3 that it could come through with a rate -- an increase
4 designed to bring it up to 100 percent cost coverage. But
5 it has to be, you know -- it has to be designated to that
6 particular class as causing the problem and it is an
7 extraordinary situation.

8 BY MS. DUCHEK:

9 Q Would you please turn to your response to number
10 33?

11 COMMISSIONER QUICK: Ms. Duchek, could I ask you
12 how far along in your questioning do you think you are? I
13 don't want to rush you, I just want to get some idea.

14 MS. DUCHEK: I think probably another 10 to 15
15 minutes.

16 COMMISSIONER QUICK: Can we hold you to that?

17 MS. DUCHEK: No, but we'll try.

18 COMMISSIONER QUICK: That's a good target to aim
19 at. Thank you.

20 MS. DUCHEK: I'll talk fast.

21 BY MS. DUCHEK:

22 Q Do you have 33 in front of you, Ms. Thompson?

23 A Yes, I do.

24 Q Okay.

25 All I am trying to do here is to clarify your

1 response; I am not asking hypotheticals.

2 In your response, are you saying that a targeted
3 rate increase is never appropriate just to bring out-of-
4 line cost coverages back into line in the absence of some
5 category or categories of mail falling below attributable
6 costs?

7 A What I am trying to say is, is that -- and I think
8 I at least am pretty clear, is that you have to have a new
9 revenue need that couldn't have been seen in the contingency
10 provision and you have to have a causal connection between
11 why you need that revenue and why it's being targeted for
12 that particular class and the first -- the new net revenue
13 implies that there has -- the first condition implies that
14 you have an increased revenue requirement.

15 Q So an out-of-line cost coverage would not
16 necessarily mean that there would be a new net revenue
17 requirement, right?

18 A That's correct, it wouldn't necessarily mean that.

19 Q Wouldn't you have to have some category or
20 categories of mail falling below attributable costs to have
21 a new net revenue requirement?

22 A I am kind of confused by your question because, to
23 me, what I am trying to say is, in this particular case, I
24 have not seen where the 340 million that is requested is
25 specifically attributable to special services. If there

1 were a case where the \$340 million were really specifically
2 the fault of special services and it wasn't addressed in the
3 contingency provision, then it is possible that you could
4 come in requesting the additional 340 million.

5 Q Well, I am focusing on your sentence, "First there
6 must be a new net revenue need that could not be foreseen in
7 the last general rate case, is not covered by the
8 contingency provision and is not offset by unexpected net
9 revenue surplus."

10 A All that's saying is that if you're having some
11 that make more money than you thought and you're -- you need
12 additional revenues that were not considered in the
13 contingency provision and I can't foresee a specific example
14 but if that were the case, and there was a reason that you
15 were going to assign an additional revenue requirement to a
16 specific class of mail because they were the cause of it,
17 then there could possibly be a targeted rate increase.

18 Q You said there had to be a reason because they
19 were the cause of it?

20 A Yes, there had to be a causal connection. In
21 other words, the reason we need this 340 million is
22 because -- well, for whatever reason, something happened and
23 they were the cause of that situation.

24 In other words, if you for some reason had an OBRA
25 hit that was saying it's only going to be because these

1 special -- because of special services, then that may be a
2 reason to go and raise special services rates.

3 Q And under your definition of a causal connection,
4 a causal connection might also be categories of mail that
5 fell below attributable cost levels; would that be correct?

6 A Well, certainly, in any omnibus rate case, it is
7 assumed that some rates may or may not meet the designated
8 cost coverage, cost coverages that are proposed and that's
9 what the contingency is for.

10 Now, if you have an unusual situation, or that's
11 one of the things, but if you have an unusual situation crop
12 up and it can be attributed to a specific piece of mail,
13 then perhaps a rate increase for those particular categories
14 is appropriate.

15 Q Can you think of any other examples besides the
16 OBRA that you just discussed that would be an unusual
17 situation?

18 A I can't categorize all things that might occur.
19 That was just one that hit my mind.

20 Q But is it your testimony then if a category of
21 mail falls below attributable costs but there -- based on
22 your response to 33, is it your testimony that if a category
23 of mail falls below attributable costs but there are other
24 categories of mail that are above the cost coverages set in
25 the previous omnibus rate case that we couldn't raise that

1 category that's below cost because these other categories
2 that are well above the cost coverages would be considered
3 an unexpected or net revenue surplus in your mind so we
4 couldn't adjust the below-cost category?

5 A I don't think it's appropriate for me to tell you
6 that you couldn't do that. I'm just trying to give you a
7 general situation.

8 Q Well, I -- I guess then I just want you to define
9 what you mean, offset by unexpected net revenue surplus.
10 Could unexpected net revenue surplus come from categories of
11 mail that were covering costs at a level beyond that set for
12 the appropriate cost coverage in the last omnibus case?

13 A Certainly, that would be a possibility.

14 Q If that was a possibility, then those adjustments
15 I've talked about would have to wait to the next omnibus
16 rate case to be made?

17 A What adjustments are you referring to?

18 Q I said that there was a category of mail below --
19 if there are categories of mail below costs and you cannot
20 adjust them because the net revenue -- this unexpected net
21 revenue surplus is coming from categories of mail that are
22 in excess of the cost coverages recommended in the last
23 case, then bringing all that back into line would have to
24 wait until the next omnibus rate case?

25 A It seems to me that you are trying to say the cost

1 coverages established by the Commission assuming a given
2 test year will be -- will be -- will hold for all time until
3 the next omnibus rate case is presented and, to me, that's
4 illogical. Nobody expects that those cost coverages will be
5 held for all time.

6 Q Well, I guess I am just trying to explore then
7 what you mean by an unexpected net revenue surplus.

8 A You know, I apologize, but where do I see -- say a
9 new net revenue surplus?

10 Q Your response to 33, page 2, you talk about a new
11 net revenue need that could not have been foreseen in the
12 last general rate case is not covered by the contingency
13 provision and is not offset by unexpected net revenue
14 surplus.

15 A Thank you, I was not reading further on down the
16 sentence.

17 Essentially, I don't think you ever are going to
18 assume that the cost coverages are going to come in with
19 what was proposed so you are going to have some that are
20 above and some that are below.

21 Q But that wasn't my question. My question is what
22 do you mean by the term "unexpected net revenue surplus"?

23 A Unexpected is unexpected. It is not explained,
24 you don't foresee it and I can't give you an example of what
25 would be unexpected.

1 MS. DUCHEK: Commissioner Quick, I only have three
2 more questions and these are the questions that Ms. Costich
3 has indicated should be redirected or asked of Ms. Thompson
4 that were objected to when they were directed to Witness
5 Callow.

6 MR. COSTICH: Surely, Commissioner Quick, these
7 questions have already been asked.

8 COMMISSIONER QUICK: I'm sorry, I didn't hear you.

9 MR. COSTICH: These have already been asked, at
10 least in generic terms.

11 COMMISSIONER QUICK: Well, we will proceed with
12 them and see if Witness Thompson wishes to answer them.

13 BY MS. DUCHEK:

14 Q This was Question T300-35 that was directed to
15 Witness Callow: If hypothetically Post Office box and
16 caller service had a before-rates cost coverage of 90
17 percent in the MC96-3 test year, would you recommend fees
18 that would increase that cost coverage to 100 percent?

19 A Certainly, it is a possibility that you would want
20 to bring it up to at least cover its costs.

21 Q Would you -- would you offset the net revenue
22 increase for Post Office box and caller service with the
23 revenue loss from some other subclass or special service to
24 maintain contribution neutrality?

25 A I don't like the use of the word "revenue loss."

1 I have a problem with that because it's assuming -- are you
2 saying that something that's above its cost coverage may be
3 being lowered such that it's not losing money but it's at
4 least breaking even?

5 Q I believe by "revenue loss," it was intended to
6 mean that, below cost.

7 A I wouldn't say that you should lower something
8 below cost, no.

9 Q What if it was in the situation that you posited
10 where it was just that the cost coverage was not as high as
11 it should be?

12 A Certainly, it would be a possibility. I am not
13 proposing that any rates be reduced such that they lose
14 money.

15 Q The next question is T300-36C that was directed to
16 Witness Callow: Suppose the Postal Service had used FY '95
17 as its test year in this docket instead of FY '96. Under
18 your view of the contribution neutral premise of
19 classification reform, should proposed Post Office box and
20 caller service fees then have been designed to produce the
21 75,091,000 contribution for Post Office box and caller
22 service recommended by the Commission for FY '95?

23 If it will help, I can give you the written --

24 A Would you mind? Because I am having a little
25 ~~trouble~~ ^{trouble} following.

1 Q But then when I ask the next question, I will have
2 to take it back from you.

3 A That's fine.

4 Thank you. Which one, you're doing this one?

5 Q C.

6 A C, okay. Thank you.

7 I'll premise my response first with I have read
8 Witness Callow's testimony but I am not familiar with what
9 the dollar amounts are being bantered back and forth. What
10 I -- what I would say, and so -- would you like to --

11 Q If it would make it easier, would you just accept
12 the dollar amounts in there subject to check?

13 A Are you asking me that should they make the same
14 amount of contribution as was designed in R94-1?

15 Q Yes.

16 A And they are using the same test year?

17 Q No, I believe that we are using a different test
18 year, which is the key to the question.

19 A All right. If you are using a different test
20 year, I think I have answered that in that you can't expect
21 cost coverages to be the same given different test years.

22 Q Let me take it back now.

23 A Okay.

24 Q The next question was T300-38 subpart C which was
25 directed to Witness Callow and it asked: Please confirm

1 that the higher level of CMRA fees compared to Postal
2 Service post box fees would justify a higher cost coverage
3 for Post Office box and caller service than if CMRA fees
4 were not higher than Postal Service box fees.

5 A Would you mind defining CMRA? Right offhand I
6 can't think of what it is standing for.

7 Q Commercial mail receiving agent, agency.

8 A Okay, could you repeat the question, please?

9 Q Please confirm that the higher level of CMRA fees
10 compared to Postal Service box fees would justify a higher
11 cost coverage for Post Office box and caller service than if
12 CMRA fees were not higher than Postal Service box fees.

13 A Are you saying that just because someone else's
14 fees are higher therefore you should be able to charge
15 higher fees?

16 Q Yes, and it's not just someone, it's a commercial
17 mail receiving agency who is a competitor of the Postal
18 Service.

19 A Certainly a profit maximizing organization would
20 want to do that. Whether it's in the public interest, I
21 can't say.

22 Q Last question, T300-38, subpart D which was
23 directed to Witness Callow: If the Postal Service has
24 obtained new information about CMRA fees following Docket
25 Number R94-1, can that information be reflected in the cost

1 coverage for Post Office box and caller service through an
2 interim Commission case before the next omnibus rate case?

3 A I believe you asked or I was asked a very similar
4 question and what I am saying is, you know, if you have new
5 information then it needs to be addressed at the time you
6 are addressing all rates.

7 MS. DUCHEK: I have no further questions.

8 COMMISSIONER QUICK: Is there any followup cross-
9 examination?

10 Do commissioners have questions for this witness?

11 Commissioner LeBlanc.

12 COMMISSIONER LeBLANC: Ms. Thompson, I guess I
13 came in confused. I am a good bit more confused now.

14 It seems like in this particular case for the
15 regulations that we have to -- let me reword it. Our
16 regulatory ratemaking process, as I see it since I have been
17 here, since 1987, has been criticized by some as not being
18 fair. Others say we take too much time to be fair and
19 equitable.

20 But when I look at this process and I look at the
21 break-even criteria that some say exists, some say doesn't
22 exist, some can't define, and we're looking at a set of
23 appropriate rates here that the Postal Service says will
24 come out to, I think, 339 plus or minus a million dollars.
25 Now, to me, a justification is needed or should be looked at

1 for rate adjustments. Now, when I look at the logic of all
2 of this, I try to come up with some reasons for what you are
3 disagreeing with them for and why they are saying that the
4 money is needed.

5 So I came with some ideas. Can you tell me if
6 demand or competition for certain products is changed
7 substantially since the last rate case? I am going to read
8 you what I've come up with here so that's the reason I am
9 doing it this way.

10 THE WITNESS: I personally don't know. I wouldn't
11 think that there has been any drastic change but I can't say
12 that there has or has not for a fact.

13 COMMISSIONER LeBLANC: Can you come up with a
14 reason why COD and money orders were left out of the special
15 services?

16 THE WITNESS: No, I cannot.

17 COMMISSIONER LeBLANC: Can you tell me if
18 technology or cost have changed substantially, that we need
19 to recognize certain changes in these groups?

20 THE WITNESS: No, I cannot.

21 COMMISSIONER LeBLANC: Do we know that certain
22 products areas have changed enough to recognize, if you
23 will, certain serious dilemmas that the Postal Service may
24 be facing?

25 THE WITNESS: No, I don't believe I do. Or I am

1 not sure that you do.

2 COMMISSIONER LeBLANC: Can you tell me if we made
3 an error since the last rate case?

4 THE WITNESS: Not that I know of.

5 COMMISSIONER LeBLANC: Can you tell me if
6 something is happening that is substantially different from
7 what was projected in the last rate case that needs
8 attention now?

9 THE WITNESS: No, I cannot.

10 COMMISSIONER LeBLANC: And you just said that you
11 don't know why the two that were below cost, as I understand
12 it, COD and money orders, has not been justified as far as
13 not being changed, if you will?

14 THE WITNESS: They have not been changed. One
15 currently is I think slightly above and the other one is
16 below.

17 COMMISSIONER LeBLANC: That was my list that I
18 came up with. You've, in effect, said, okay, none of that
19 has taken place and you're saying the 339 is not needed, is
20 that a fair assumption?

21 THE WITNESS: That is correct.

22 COMMISSIONER LeBLANC: Now, in Answer 421 -- I'll
23 get to it in a minute -- Ms. Duchek and you were talking
24 about the predecisional exclusion of certain categories of
25 mail from a rate increase designed to generate new net

1 revenue is unfair, unequitable, arbitrary and
2 discriminatory.

3 Based on what I just asked you, that seems to be
4 then the crux of your argument throughout everything.

5 THE WITNESS: For no good reason, they are
6 requesting an additional ~~\$334~~^{\$339} million from this special
7 services.

8 COMMISSIONER LeBLANC: Let me try to understand
9 then. Are you saying that they're asking for \$339 million,
10 they're making \$1.5 billion, still have a contingency, and
11 have not justified their need. Is that just a cut through
12 what I call my good old country, south Louisiana way of
13 saying it?

14 THE WITNESS: That's correct.

15 COMMISSIONER LeBLANC: Let's go back the other
16 way. On page 14 of your testimony, you talk about, from
17 lines 13 through 17, and I'll read it for you, "Approval of
18 the Postal Service's current request for selected and
19 unjustified price adjustments for the purpose of increasing
20 net revenues encourages similar future filings whose purpose
21 is divide and conquer ratemaking." What do you mean by
22 "divide and conquer ratemaking"?

23 THE WITNESS: If the Postal Service is allowed to
24 target special services with an additional \$340 million,
25 then there is no reason why they would not come back and

1 selectively target specific classes of mail to generate
2 specific amounts of money and they could then more
3 effectively control the pricing of the various products.

4 There is no causal relationship between the
5 revenues requested and the target that they chose.

6 COMMISSIONER LeBLANC: Then let's go back to -- I
7 want to thank Ms. Duchek for bringing it out. I already had
8 it but since she brought the R-95 testimony out, if you'll
9 look on page five of R-95 of the request of the United
10 States Postal Service for a recommended decision on
11 classification reform of first, second and third class mail,
12 Docket MC-95-1, it talks about "Avoid the interclass cost
13 coverage dispute." That's about three-quarters of the way
14 down, the fourth line from the bottom. The sentence starts,
15 "The Postal Service is also," do you see that?

16 THE WITNESS: Yes, I do.

17 COMMISSIONER LeBLANC: In your opinion, does this
18 selective increase cause inter or intra class cost coverage
19 disputes?

20 THE WITNESS: At this point in time, there are
21 only two intervenors, the Postal Service and the OCA, and to
22 me, it's not a real popular classification, so no, there is
23 not a rivalry going on here.

24 COMMISSIONER LeBLANC: I'm not talking about
25 between the OCA and the Postal Service.

1 THE WITNESS: No, no, I mean between the different
2 classes of mailers.

3 COMMISSIONER LeBLANC: Do you think, in your
4 opinion, that might be possible?

5 THE WITNESS: It's possible, but I think if there
6 were other parties that were very interested in this, they
7 would be participating.

8 COMMISSIONER LeBLANC: Okay. Let's go back to
9 200-9, if you will, for me for a minute. I've got to get to
10 it now.

11 You've talked about, with Ms. Duchek, the net
12 revenue burden and you went into the coincidental or at
13 least that's one of the things I thought you all were
14 talking about.

15 When I read that, you're talking about all the
16 other services as well that don't cover their cost. Are you
17 saying then that all of those others don't cover their cost
18 as well? Just a clarification, I'm not trying to --

19 THE WITNESS: Yeah, my point was that they wanted
20 additional funds and this happened to be the case that was
21 ready to be filed and so this particular case had the bad
22 luck of generating additional revenues.

23 COMMISSIONER LeBLANC: So then is that what you
24 meant in 200-8, the last sentence -- the second to last
25 sentence where you talk about "There are more egregious

1 situations crying out for adjustment than the special
2 services targeted in this case"?

3 THE WITNESS: Yes. I'm saying that there are
4 other classes of mail that are falling below their cost
5 coverages that should be brought up to at least cover their
6 costs.

7 COMMISSIONER LeBLANC: Okay. The Chairman always
8 says don't use the word "last" but I hope this is my last
9 question for you.

10 In 200-5, your answer -- the question says,
11 "Please confirm that developments in the market for a
12 particular postal product independent of any general cost
13 level increases or any specific changes in attributable
14 costs for that product may justify adjustments in the rates
15 or fees for that product under circumstances in which no
16 omnibus rate changes are required."

17 I'm a little bit -- I don't quite understand that
18 in relation to your colloquy with Ms. Duchek. Are you
19 saying then that this is an arbitrary increase? Because
20 there are no circumstances involved?

21 THE WITNESS: It would seem to me that there has
22 been no good reason presented for 340 million being targeted
23 and therefore it does seem arbitrary.

24 COMMISSIONER LeBLANC: So there are no
25 circumstances or anything that you can find that justify

1 this?

2 THE WITNESS: Not in this particular case for
3 special services, no.

4 COMMISSIONER LeBLANC: So you would then wait
5 until an omnibus rate case to have the cost and everything
6 as you talked about with her, as I understood your colloquy
7 with her?

8 THE WITNESS: My point was that if they do need
9 additional revenues those should be generated from an
10 omnibus rate case. I they are trying to do just a
11 reclassification proposal, then that is what they should be
12 addressing.

13 COMMISSIONER LeBLANC: Okay.

14 Commissioner Quick, thank you. I think that's all
15 I've got at this time.

16 COMMISSIONER QUICK: Does any participant have
17 followup cross-examination as a result of questions from the
18 Bench?

19 [No response.]

20 COMMISSIONER QUICK: That brings us to redirect.

21 Mr. Costich, would you like time with your witness
22 before stating whether redirect testimony will be necessary?

23 MR. COSTICH: Not necessary. There will be no
24 redirect.

25 COMMISSIONER QUICK: There will be no redirect,

1 all right.

2 In that case, thank you, Ms. Thompson. We
3 appreciate very much your appearance here today and your
4 contributions to our record.

5 If there is nothing further, you are excused.

6 THE WITNESS: Thank you.

7 [Witness excused.]

8 COMMISSIONER QUICK: I think now we will break for
9 lunch and come back at a quarter to 2:00, at 1:45, to resume
10 with Witness Callow.

11 [Whereupon, at 12:40 p.m., the hearing was
12 recessed for lunch, to reconvene at 1:45 p.m., this same
13 day.]

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AFTERNOON SESSION

[1:45 p.m.]

COMMISSIONER HALEY: Good afternoon. May we be back on record. Our Presiding Officer in this case has been temporarily delayed and has asked me to continue the hearing until he can return.

With that, we would like Ms. Dreifuss, I think you were going to take over this after?

MS. DREIFUSS: Yes, Commissioner.

COMMISSIONER HALEY: Yes. Good afternoon, and we would like you to identify your witness so I can swear him in.

MS. DREIFUSS: The OCA calls James F. Callow.

Actually -- this is the time at which the witness will be sworn in.

COMMISSIONER HALEY: Yes, I am going to swear him in. Stand up, Mr. Callow, if you will. Whereupon,

JAMES F. CALLOW,
a witness, was called for examination by counsel for the Office of Consumer Advocate and, having been first duly sworn, was examined and testified as follows.

COMMISSIONER HALEY: Sit down.

DIRECT EXAMINATION

BY MS. DREIFUSS:

1 Q Do you have before you two copies of a document
2 marked for identification as OCA-T-300, "The Direct
3 Testimony of James F. Callow"?

4 A Yes, I do.

5 Q Was this document prepared by you or under your
6 direct supervision?

7 A Yes, it was.

8 Q Do the copies before you contain revisions made to
9 this document on October 8th, 1996 and November 13th, 1996?

10 A Yes.

11 Q Do you have any other revisions?

12 A No, I do not.

13 Q If you were to testify orally today, would this be
14 your testimony?

15 A Yes.

16 MS. DREIFUSS: I move the admission of these two
17 copies of OCA-T-300 into evidence, and I would be happy to
18 hand the copies to the Reporter.

19 COMMISSIONER HALEY: Very well.

20 Are there any objections?

21 [No response.]

22 COMMISSIONER HALEY: Hearing none, Mr. Callow's
23 testimony and exhibits are received in evidence. I direct
24 that they be accepted into evidence and be transcribed into
25 the record at this point.

1 [The Direct Testimony of James F.
2 Callow, OCA-T-300 was received into
3 evidence and transcribed into the
4 record.]
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OCA-T-300
Docket No. MC96-3

DIRECT TESTIMONY

OF

JAMES F. CALLOW

ON BEHALF OF

THE OFFICE OF THE CONSUMER ADVOCATE

SEPTEMBER 30, 1996

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1 DIRECT TESTIMONY OF

2 JAMES F. CALLOW

3 STATEMENT OF QUALIFICATIONS

4

5 My name is James F. Callow. I have been employed by the
6 Postal Rate Commission since June 1993, and since February
7 1995 in the Office of the Consumer Advocate (OCA). I am a
8 Postal Rate and Classification Specialist.

9 I testified before this Commission in Docket No. MC95-1.
10 My testimony in that proceeding summarized the comments of
11 persons expressing views to the Commission and the Office of
12 the Consumer Advocate on postal rates and services.

13 As a Special Assistant to Commissioner Quick, I
14 participated in Docket Nos. MC93-1, MC93-2 and R94-1. In the
15 latter docket, I was assigned responsibility for substantive
16 subject areas considered by the Commission in its Opinion and
17 Recommended Decision. Specifically, I analyzed quantitative
18 testimony of the Postal Service with respect to the estimation
19 of workers' compensation costs and evaluated rate design
20 proposals of the Postal Service and other parties related to
21 special postal services.

1 Prior to joining the Commission, I was employed by a US
2 Senator and a Member of Congress from Michigan, and the
3 Governor of the State of Michigan.

4 I am an accountant by training. In 1985, I earned an MS
5 degree in accounting from Georgetown University. My course
6 work included cost accounting and auditing. In 1977, I
7 obtained my BA degree from the University of Michigan-Dearborn
8 with a double major in political science and history and a
9 minor in economics.

1 I. PURPOSE AND SCOPE OF TESTIMONY

2 This testimony addresses the post office box
3 classification and fee proposals of the Postal Service.¹ I
4 reject the Postal Service's proposed classification change for
5 implementing a non-resident surcharge and propose alternative
6 fees for post office box service. The alternative fees are
7 generally lower than those proposed by the Postal Service.
8 The fees are designed to equalize inter-group cost coverages,
9 and reduce the disparity in cost coverages by post office box
10 size.

¹ My testimony uses the existing delivery group nomenclature—Group IA, IB, IC, Group II and Group III—for ease of presentation. I do not object to the proposed names, Group A, B, C, D and E, respectively.

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1 II. THE POSTAL SERVICE'S PROPOSED SURCHARGE ON NON-RESIDENT
2 BOXHOLDERS IS NOT JUSTIFIED

3 The Postal Service proposes to assess a surcharge on
4 "individuals and businesses which reside or are located in one
5 ZIP Code area and use a post office box in another." Request
6 at 2. These "non-residents" would be charged \$36 annually, in
7 addition to the applicable box service fee. In determining
8 whether to assess the surcharge, the Postal Service would ask
9 persons seeking to obtain or renew box service to furnish
10 proof of residency. USPS-T-7 at 24.

11 The justifications for the non-resident surcharge are
12 stated by witness Needham. It is intended to address the
13 "greater administrative burdens that are associated with non-
14 resident box service at some locations." Id. at 41.
15 According to witness Needham, the surcharge would compensate
16 the Postal Service for these additional administrative costs.
17 Tr. 3/691 (OCA/USPS-T7-21). Witness Landwehr's testimony
18 describes these greater administrative burdens, but does not
19 quantify any extra cost.

20 Another justification is that non-resident boxholders
21 contribute to the unavailability of post office boxes for
22 residents. Tr. 3/684 (OCA/USPS-T7-14b). The surcharge is

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1 intended to motivate non-residents to seek local box service
2 or other alternatives, thereby "making [boxes] available for
3 residents." USPS-T-7 at 25.

4 The final justification relates to market factors. Non-
5 resident boxholders "seek convenience or prestige, or both,
6 and should pay higher fees for the inherent value of these
7 factors." Id. at 33.

8 A. The Postal Service's Anecdotal Information Does Not Show
9 A Significantly Higher Incidence Of Cost-Causing Behavior
10 For Non-Residents Than For Residents.

11 The attribution of costs is of central importance in
12 setting postal rates and fees. PRC Op. R90-1, para. 4005.
13 The Postal Service's attributable costs of providing a service
14 are essential to this process.

15 With respect to the proposed non-resident surcharge, no
16 cost studies have been performed to identify or quantify "any
17 attributable cost differences associated with providing box
18 service to residents [or] non-residents" Tr. 3/586
19 (OCA/USPS-T4-1). Witness Needham acknowledges that "the \$18
20 [semi-annual] fee was not determined based on costs" of
21 providing box service to non-residents. Tr. 3/674
22 (OCA/USPS-T7-5).

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1 The Postal Service instead indirectly raises costing
2 considerations by offering "qualitative descriptions of . . .
3 operational difficulties" presented by non-resident boxholders
4 at three post offices. Tr. 3/686 (OCA/USPS-T7-15). These
5 operational difficulties, which "the non-resident fee is
6 intended to address," are found in the testimony of witness
7 Landwehr.²

8 Witness Landwehr identifies the following "operational
9 difficulties" associated with providing box service to non-
10 residents that result in postal costs:

- 11 • separate storage of mail in the post office awaiting
12 pick-up due to infrequent and irregular visits by non-
13 residents to collect their mail (USPS-T-3 at 4, 7 and 9);
14
- 15 • more frequent requests for temporary mail forwarding
16 orders and mail hold orders than residents (id. at 4);
17
- 18 • processing Freedom of Information Act requests (id. at
19 7);
20
- 21 • long distance telephone communications (id.);
22
- 23 • multiple individuals using the same box, which makes
24 control of the box difficult (id. at 7-8 and 10);
25
- 26 • unsightly clutter in post office lobbies requiring
27 additional custodial resources (id. at 9);
28

² Id. The "operational difficulties" are also variously described as "significant demands on operations," "greater administrative burdens," and "greater administrative requirements." USPS-T-3 at 4, 7 and 9.

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- 1 • late payment of box fees (id. at 10); and
2
3 • providing assistance filling out forms and explaining
4 postal services available.³
5

6 Witness Needham states that the surcharge is justified on
7 a cost basis because,

8 non-resident boxholders are more apt to present
9 costlier situations than residents. The proposed
10 non-resident fee is geared . . . to recover these
11 costs.
12

13 Tr. 3/655 (DFC/USPS-T7-6) (citation omitted). Witness
14 Needham's comments represent the only cost justification
15 presented. These comments are based on the premise that non-
16 residents have a greater propensity to "present costlier
17 situations" than residents. According to witness Ellard, such
18 a premise can only be established if the frequency of each of
19 these "costlier situations" were available separately for
20 residents and non-residents. Tr. 2/385. This information was
21 not collected. Id.

22 No studies were conducted on the frequency of cost-
23 causing behaviors by resident and non-resident boxholders with

³ Id. at 8. Witness Landwehr also identifies "a higher than normal incidence of lost or forgotten box keys." USPS-T-3 at 8 and 10. The Domestic Mail Manual (DMM) provides that, "Box customers may obtain additional or replacement keys by submitting Form 1094 and paying the applicable fee." See DMM § D910.6.2.

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1 respect to the following: accumulation of mail that exceeds
2 box capacity, thereby requiring separate storage, Tr. 3/431
3 (DFC/USPS-T3-6) and 413 (DBP/USPS-T3-5); processing of Freedom
4 of Information Act requests, Tr. 3/423 (DBP/USPS-T3-15);
5 multiple users making control of the box difficult, see Tr.
6 3/417 (DBP/USPS-T3-9); lobby clutter and the need for
7 additional custodial resources, Tr. 3/432 (DFC/USPS-T3-7) and
8 414 (DBP/USPS-T3-6); late payment of box fees, Tr. 3/427
9 (DFC/USPS-T3-2) and 420 (DBP/USPS-T3-12); assistance filling
10 out Postal Service forms, Tr. 3/424 (DBP/USPS-T3-16); and a
11 higher than normal incidence of lost or forgotten keys, Tr.
12 3/430 (DFC/USPS-T3-5) and 418 (DBP/USPS-T3-10).

13 Witness Needham cites costs associated with the greater
14 administrative burden of providing box service to non-
15 residents as a justification for the surcharge. However, she
16 cannot quantify any costs and the anecdotal information that
17 has been offered is associated with only a small number of
18 post offices. It is not possible to justify the \$36 annual
19 non-resident surcharge on the basis of "cost-causing" behavior
20 by non-resident boxholders.

1 B. Neither Anecdotal Nor Quantitative Information Reveals A
2 Significant Nationwide Shortage Of Boxes Due To Non-
3 Residents.

4 The Postal Service attempts to justify the non-resident
5 surcharge by offering anecdotal information about box
6 shortages where there are non-residents boxholders. Witness
7 Landwehr identifies three post offices—Middleburg, VA; San
8 Luis, AZ; and, Blaine, WA—with a "high number of non-resident
9 customers" and no boxes available. USPS-T-3 at 10. These
10 post offices are described as "atypical in the pool of all
11 post offices," but he concludes "there are also many similar
12 offices nationwide." Id.

13 Witness Needham relies on newspaper articles to establish
14 a link between the unavailability of post office boxes and
15 non-resident usage. USPS-T-7 at 25-31; see also LR-SSR-105.
16 These articles highlight post offices in "vanity address"
17 areas and towns bordering Canada and Mexico that "attract
18 large numbers of non-residents seeking post office box
19 service." USPS-T-7 at 28.

20 In one identified community, witness Needham observes,
21 Since no boxes are available, non-resident boxholders in
22 Rancho Santa Fe preclude new residents from obtaining
23 post office box service.

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1 Id. at 27. A similar observation is made with respect to
2 Middleburg, VA. Id. What witness Needham fails to
3 demonstrate is that forcing non-residents to move would not
4 simply shift box shortages to other post offices.

5 The testimony of witnesses Needham and Landwehr create
6 the impression that there is a serious nationwide shortage of
7 post office boxes due to non-residents. This impression
8 cannot be substantiated. Tr. 3/697 (OCA/USPS-T7-26). The
9 Postal Service cannot project the number of similar offices
10 nationwide. See Tr. 3/460 (OCA/USPS-T3-22) and 426
11 (DFC/USPS-T3-1). Witness Landwehr admits that his conclusion
12 is not based on quantitative studies or reports. See Tr.
13 3/460.

14 The newspaper articles in LR-SSR-105 identify post
15 offices in only 11 communities that attract large numbers of
16 non-residents where all post office boxes are in use.⁴
17 Another eight post offices were subsequently identified as
18 having "high proportions" of non-resident boxholders and no

⁴ Beverly Hills, CA; Middleburg, VA; Rancho Santa Fe, CA; Palm Beach, FL; Winnetka, IL; Modesto, CA; Lake Oswego, OR; West Linn, OR; Davidson, NC; and the border town of San Luis, AZ. Blaine, WA, a border town identified in USPS-T-3, is included in this count.

1 additional boxes available for rent.⁵ These 19 post offices

⁵ Tr. 3/716-17 (OCA/USPS-T7-38, Supplemental Response). The supplemental response also identified another 15 post offices that are "popular" with, or have "high proportions" of, or a "substantial proportion" of, non-resident boxholders. Tr. 3/716-7. The original response identified two post offices "which have complaints regarding" non-resident boxholders. Tr. 3/715. There is no information on whether all boxes at these offices are in use.

1 care little that there are no size 5 boxes available at the
2 post office.

3 A more realistic measure of resident boxholder hardship
4 is to count only those offices where no boxes of any size are
5 available. Of those postal facilities with installed boxes,
6 only 5.25 percent had no boxes of any size available.

7 OCA-LR-2 at 7. In other words, box service could be obtained
8 in roughly 95 percent of the facilities represented in witness
9 Lion's PO Box Study. The quantitative data also show that
10 only 5.47 percent of the offices had no boxes of size 1, 2 or
11 3 available. Id.

12 The quantitative information reveals that there is no
13 nationwide box availability problem. Ninety-five percent of
14 all offices have boxes available. Moreover, the PO Box Study
15 contains no data to determine that the lack of available boxes
16 in the other five percent of post offices is due to non-
17 residents. Tr. 3/621 (OCA/USPS-T7-13).

18 C. The Postal Service Has Not Provided Sufficient
19 Information To Evaluate The Effect Of The Surcharge On
20 Non-Resident Boxholders.

21 The Postal Service's proposed non-resident surcharge must
22 meet the relevant statutory criteria of §3622(b) and §3623(c).

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1 In particular, section 3622(b)(4) requires consideration of
2 "the effect of rate increase upon the general public." The
3 Postal Service's information is inadequate for this purpose.

4 For purposes of her testimony, witness Needham defines
5 non-residents "as those individuals or business boxholders
6 whose residence or place of business is not located within the
7 5-digit ZIP Code area of the office where box service is
8 obtained." USPS-T-7 at 23-24. The Postal Service's proposed
9 change in the special service schedule provides another:
10 "[A]ll customers will be subject to an additional semi-annual
11 \$18.00 nonresident fee per box . . . unless they receive . . .
12 an exemption based upon proof of local residency." Request,
13 Attachment B, at 5-6, n. 1.

14 The Postal Service has not supplied estimates of the
15 number of boxholders subject to either of these definitions.
16 The only data available on the number of non-residents is
17 based on witness Ellard's market research survey. See
18 LR-SSR-111. That survey only estimated the number of
19 boxholders who *believe* they are non-residents. Tr. 2/389. It
20 is unlikely the Postal Service would exempt a boxholder from
21 the non-resident surcharge based on the boxholder's belief
22 that he is a resident.

1 The determination of non-residents subject to the
2 surcharge is further clouded by the inability of Postal
3 Service witnesses to clarify the residency status of
4 identified groups of boxholders. Witness Landwehr identifies
5 "Canadian citizens who own vacation property" in the Blaine,
6 WA, delivery area as non-resident boxholders. USPS-T-3 at 9.
7 However, witness Landwehr could not state whether these owners
8 would be subject to the surcharge. Tr. 3/459
9 (OCA/USPS-T3-21). Witness Needham could not state, based upon
10 her definition, whether US or Mexican migrant farm workers who
11 leave their families in the San Luis area are residents or
12 non-residents for purposes of the surcharge. Tr. 3/857-60.

13 It is not possible to determine the effect of the
14 surcharge when the Postal Service, itself, does not know who
15 will be paying it. This situation exists because, "The
16 definition of residents and non-residents as it relates to
17 post office boxes has not been finalized." Tr. 3/459
18 (OCA/USPS-T3-21). Considerable work on defining who is a
19 resident and non-resident boxholder subject to the surcharge
20 is deferred to implementation when the "details of residency
21 will be determined." Tr. 3/663 (DFC/USPS-T7-13).

1 With respect to testing the price sensitivity of non-
2 resident boxholders to the non-resident surcharge, the Postal
3 Service's market research did not distinguish between resident
4 and non-resident boxholders. Non-resident survey respondents
5 were not even informed that their fees would be \$36 a year
6 more than the proposed box fees for residents. Tr. 2/370
7 (OCA/USPS-T6-25). Witness Ellard could have tested the
8 sensitivity of non-resident boxholders to the surcharge in his
9 market research. However, the research was conducted before
10 witness Ellard learned of the Postal Service's plan to propose
11 a non-resident surcharge. Tr. 2/395. Consequently, it
12 appears there is no market research about the effect of the
13 Postal Service's proposed surcharge on non-resident
14 boxholders.

15 D. The Postal Service's Proposed Non-Resident Surcharge Is
16 Unfair And Inequitable.

17 Proposed classification changes, and accompanying rates
18 and fees, must satisfy §3622(b)(1) and §3623(c)(1), which
19 require "the establishment and maintenance of a fair and
20 equitable" rate schedule and classification system. The
21 Postal Service's discriminatory treatment of non-resident

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1 boxholders through the proposed non-resident surcharge is
2 unfair and inequitable.

3 Witness Needham considers it "fair and equitable to
4 address the difference between resident and non-resident"
5 boxholders via the non-resident surcharge. USPS-T-7 at 41.
6 She states that because non-resident boxholders "seek
7 convenience or prestige, or both," they should pay a surcharge
8 for choosing box service outside of their local delivery area.
9 Id. at 33.

10 The Postal Service is unable to assess the value of non-
11 local box service for non-resident boxholders. It did not
12 contact or interview non-resident boxholders. Tr. 3/677
13 (OCA/USPS-T7-9). Therefore, the Postal Service is unable to
14 determine reliably the reasons non-residents seek box service
15 outside their local delivery area.

16 The Postal Service's proposed box fees and non-resident
17 surcharge are large increases in percentage terms. Proposed
18 increases on non-resident boxholders range from 30 to 100
19 percent where box fees are the highest (Group IA), and 165 to
20 550 percent for non-resident boxholders in Group II.
21 USPS-T-7, Table II, at 5-6.

1 The non-resident surcharge and fee increases are unfair
2 and inequitable under the circumstances. As explained in the
3 previous sections, the specific reasons advanced by the Postal
4 Service to justify the non-resident surcharge rely on
5 anecdotal information, or lack quantitative data.

6 Implementing the proposed non-resident surcharge in the
7 absence of critical costing information and demonstrated need
8 would be unfair and inequitable.

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1 III. PROPOSED POST OFFICE BOX FEES SHOULD COVER COSTS WITHOUT
2 BURDENING BOXHOLDERS WITH AN UNNECESSARY CONTRIBUTION TO
3 INSTITUTIONAL COSTS

4
5 As explained in the testimony of OCA witness Thompson,
6 classification reform of post office boxes (and special
7 services generally) outside of an omnibus rate proceeding
8 should follow the Postal Service's initial goal of
9 contribution neutrality. In keeping with the Postal Service's
10 initial framework, fees for post office boxes should be net
11 revenue neutral.

12 Under my proposal, most box fees would remain unchanged
13 or decrease. Those box fees that are increased move toward
14 covering costs. Collectively, the changes result in a post
15 office box and caller service cost coverage of 101 percent and
16 net revenues of \$5.5 million (an increase of \$6.3 million).

17 My proposed fees differ from the Postal Service's
18 proposals in two respects. First, because I reject the
19 Service's proposed classification change there is no provision
20 for a non-resident surcharge. Second, the proposed fees are,
21 on average, lower than those proposed by the Postal Service.
22 Proposed fees in Group IA decrease by an average 1.2 percent;

1 in Group IB, 1.3 percent; and in Group IC, 22.5 percent. See
2 Table 1.

3 In Group II, I adopt the Postal Service's proposed 100
4 percent fee increase. I also adopt the Postal Service's \$0
5 fee for Group III boxholders.

6 A. New Post Office Box Fees Should Seek To Reduce The
7 Disparity In Cost Coverages By Group and Box Size.

8 Table 1 compares the current semi-annual fees to the fees
9 proposed by the Postal Service and OCA. Also compared is the
10 percentage change in fees as proposed by the Postal Service
11 and OCA.

Table 1
POST OFFICE BOX FEE COMPARISON
(Annual Fees)

	Current Fee	USPS Proposal ⁷	OCA Proposal	Percentage Change	
Box Size		Group IA		USPS	OCA
<hr/>					
1	\$48.00	\$60.00	\$48.00	25%	0%
2	\$74.00	\$92.00	\$66.00	24%	-11%
3	\$128.00	\$160.00	\$122.00	25%	-5%
4	\$210.00	\$242.00	\$210.00	15%	0%
5	\$348.00	\$418.00	\$410.00	20%	18%
<hr/>					
Group IB					
<hr/>					
1	\$44.00	\$56.00	\$44.00	27%	0%
2	\$66.00	\$82.00	\$60.00	24%	-9%
3	\$112.00	\$140.00	\$110.00	25%	-2%
4	\$190.00	\$218.00	\$190.00	15%	0%
5	\$310.00	\$372.00	\$358.00	20%	15%
<hr/>					
Group IC					
<hr/>					
1	\$40.00	\$50.00	\$32.00	25%	-20%
2	\$58.00	\$72.00	\$43.00	24%	-26%
3	\$104.00	\$130.00	\$76.00	25%	-27%
4	\$172.00	\$190.00	\$142.00	10%	-17%
5	\$288.00	\$300.00	\$272.00	4%	-6
<hr/>					
Group II					
<hr/>					
1	\$8.00	\$16.00	\$16.00	100%	100%
2	\$13.00	\$26.00	\$26.00	100%	100%
3	\$24.00	\$48.00	\$48.00	100%	100%
4	\$35.00	\$70.00	\$70.00	100%	100%
5	\$55.00	\$110.00	\$110.00	100%	100%
<hr/>					
Group III					
<hr/>					
1 to 5	\$2.00	\$0.00	\$0.00	-100%	-100%

⁷ Without proposed non-resident surcharge.

Revised 10/8/96

1 Each of my fee proposals move post office box fees toward
2 the goal of reducing the disparity in cost coverages by group
3 and box size. Currently, the highest cost coverages occur in
4 Group IC; the lowest in Group II, where fees are below cost.
5 As explained by OCA witness Sherman, "[a]voiding prices that
6 are below cost would seem to be a compelling goal." OCA-T-100
7 at 29. In addition, witness Sherman states that the highest
8 cost coverages occur in box size 3, with the coverages
9 declining toward the smaller and larger boxes. Id.

10 Accordingly, most of the fees I propose for Group I boxes
11 are unchanged or less than current fees. Fees that are
12 unchanged involve box sizes 1 and 4 in Groups IA and IB. Fees
13 that are reduced involve box size 2 and 3 in Groups IA and IB,
14 and all box fees in Group IC. Group II fees are increased, as
15 is the fee for box size 5 in Groups IA and IB. Table 2
16 compares the current cost coverage and the cost coverages
17 under the Postal Service and OCA proposals by group and box
18 size.

Revised 11/13/96

Table 2⁸
POST OFFICE BOX COST COVERAGE COMPARISON

	Current Cost Coverage	USPS Proposed Cost Coverage ⁹	OCA Proposed Cost Coverage
Box Size		Group IA	
1	111%	124%	112%
2	120%	133%	108%
3	110%	121%	106%
4	93%	94%	94%
5	78%	82%	92%
Average	111%	123%	111%
		Group IB	
1	113%	129%	114%
2	120%	133%	110%
3	108%	120%	108%
4	95%	96%	96%
5	79%	83%	92%
Average	110%	123%	110%
		Group IC	
1	142%	161%	115%
2	149%	166%	112%
3	147%	163%	108%
4	127%	124%	106%
5	109%	100%	104%
Average	143%	158%	112%
		Group II	
1	31%	56%	62%
2	37%	66%	74%
3	37%	66%	75%
4	29%	51%	58%
5	23%	41%	47%
Average	33%	60%	67%

⁸ OCA-LR-3 at 1 and 3.

⁹ Without proposed non-resident surcharge.

Revised 11/13/96

1 My proposal relies on cost estimates and volume estimates
 2 contained in OCA-LR-3, revised November 5, 1996.
 3 Consequently, where a fee change is proposed, the change in
 4 post office box volume accompanying that fee change is the
 5 volume change estimated in OCA-LR-3. Those volume changes are
 6 used to calculate total costs. The unit cost per box is based
 7 on the testimony of witness Lion.

8 Table 3 compares the results of the Postal Service's fee
 9 changes with those of the OCA. Differences in revenues,
 10 costs, net revenue, and the post office box and caller service
 11 cost coverages are shown.

Table 3¹⁰

POSTAL SERVICE AND OCA PROPOSALS COMPARED

Post Office Box and Caller Service	USPS Proposal ¹¹	OCA Proposal
Revenues	\$623,899,541	\$535,303,399
Costs	\$518,452,742	\$529,831,606
Net Revenues	\$105,466,799	\$5,471,793
Cost Coverage	120%	101%

¹⁰ OCA-LR-3 at 1 and 3.

¹¹ Without proposed non-resident surcharge.

1 B. New Post Office Box Fees Must Satisfy The Pricing
2 Criteria Of The Postal Reorganization Act.

3 The pricing criteria for postal rates and fees are
4 enumerated in Section 3622(b), paragraphs 1 through 9, of the
5 Postal Reorganization Act. In developing the proposed fees
6 for post office boxes, I considered the relevant pricing
7 criteria. The proposed fees reflect my judgment as to the
8 application of those criteria.

9 Criterion number one refers to "the establishment and
10 maintenance of a fair and equitable schedule." Most of the
11 proposed fees are presumptively fair and equitable, since they
12 are the same or below the fees recommended by the Commission
13 and approved by the Governors in Docket No. R94-1. Of the 21
14 post office box fees, 15 are unchanged or reduced from current
15 fees.

16 Fairness and equity are enhanced by reducing the
17 disparity in cost coverages between groups. As shown in Table
18 2, Group IC bears a proportionally larger institutional cost
19 burden. My proposed box fee changes decrease the cost
20 coverage in Group IC, bringing it closer to the cost coverage
21 in Groups IA and IB.

1 Fairness and equity are also enhanced by reducing the
2 disparity in cost coverages by box size. OCA witness Sherman
3 observes that the cost coverages proposed by the Postal
4 Service encourage use of the smallest and largest box sizes.
5 OCA-T-100 at 30. Cost coverages under the current fee
6 structure also encourage use of the smallest and largest box
7 sizes. See Table 2.

8 The fees I propose reduce this disparity in cost coverage
9 by box size. Cost coverages under my proposal decline from
10 the smallest to the largest boxes, except in Group II. This
11 declining cost coverage by box size promotes the use of larger
12 boxes. It also reduces reliance on the middle size boxes for
13 the largest contribution to institutional costs, thereby
14 creating a more fair and equitable fee schedule.

15 My proposed fee increases for box size 5 in Groups IA and
16 IB are fair and equitable. The current cost coverages for
17 these boxes are 78 and 79 percent, respectively. Cost
18 coverages for the other box sizes in Groups IA and IB now
19 range from 93 to 120 percent. The proposed fee increases
20 raise the box size 5 cost coverage.

21 The Postal Service's proposed fee increase of 100 percent
22 for all boxes in Group II is fair and equitable. Post office

1 box and other postal services offered by rural delivery
2 offices are generally comparable to those offered by city
3 carrier delivery offices. The large disparity in Group II vs.
4 Group IC fees for the same size box—a difference ranging up
5 to 400 percent—is not justified. Moreover, the disparity in
6 fees is not justified on the basis of cost differences. See
7 OCA-LR-3 at 1.

8 While this substantial increase results in fees that are
9 still below attributable costs, the disparity in fees between
10 Group I and Group II boxes is reduced. As a result, the
11 increase creates a more fair and equitable schedule vis-à-vis
12 boxholders in city delivery offices.

13 The Postal Service's proposed \$0 fee for Group III
14 boxholders is fair and equitable as it recognizes that such
15 boxholders have no alternative to post office box service for
16 the receipt of mail.

17 The second criterion directs that consideration be given
18 to "the value of the mail service actually provided." Post
19 office box service offers relatively low value. Box features
20 such as privacy and security are offset by more limited
21 boxholder access to the mail at post offices box sections, as

1 compared to carrier delivery. At present, only 42 percent of
2 post offices have 24 hour access to box sections. USPS-T-4,
3 Table 8A and 8B, at 12. (For a discussion of the relatively
4 low value of box service, see the direct testimony of Douglas
5 F. Carlson.)

6 The third criterion—recovery of attributable costs—
7 requires that revenues for each mail class or service be at
8 least equal to the attributable costs for that class or
9 service. The Postal Service's revenues from post office box
10 and caller service results in a cost coverage of 128 percent.
11 USPS-T-1, Exhibit C. However, the Postal Service's proposed
12 fee and classification changes extract an additional \$134.5
13 million in net revenues from boxholders. USPS-T-1, WP C, at
14 3.

15 My proposed fees for post office boxes, plus caller
16 service, increase combined net revenues by \$5.5 million, with
17 a resulting cost coverage of 101 percent. These fee changes
18 represent a balance between the "contribution neutral" premise
19 of classification reform and reducing disparities between cost
20 coverages by group and box size.

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1 Criterion number four concerns "the effect of rate
2 increases" on the general public. Fees that are unchanged or
3 reduced will make boxholders indifferent or better off as a
4 result. The 100 percent fee increase proposed for Group II
5 boxholders, while large in percentage terms, is modest in
6 absolute amount. A doubling of fees for the two smallest box
7 sizes means a semi-annual increase of \$4.00 and \$6.50,
8 respectively, for individual and small business boxholders.

9 The fees I propose for box size 5 in Groups IA and IB are
10 smaller in percentage terms, 18 and 15 percent, respectively,
11 than proposed by the Postal Service. Although the increase in
12 dollars is not trivial, it is balanced by the consideration
13 that fees for all boxes should move toward covering costs.

14 The fifth criterion directs consideration to the role of
15 available alternatives at reasonable cost. For the box sizes
16 used most often by individuals and small businesses, my
17 proposed fees for Group I boxes remain below those offered by
18 private sector competitors. USPS-T-4, Table 11, at 22.
19 Moreover, where fees are increased, Group I and Group II
20 boxholders generally have the option of carrier delivery as an
21 alternative to box service.

1 Criterion number seven refers to the "simplicity of [the]
2 structure for the entire schedule and simple, identifiable
3 relationships between the rates or fees charged." The
4 simplicity of the fee structure is maintained, as it is
5 essentially unchanged from the current structure.

1 IV. CONCLUSION

2 The Postal Service's proposed surcharge for non-resident
3 boxholders cannot be justified. The Postal Service offers no
4 studies to verify any differences in the cost of providing box
5 service to non-resident versus resident boxholders. The
6 Postal Service is unable to show that there is a nationwide
7 shortage of post office boxes generally, or due to presence of
8 non-resident boxholders specifically. Finally, the Postal
9 Service's market research did not measure the price
10 sensitivity of non-resident boxholders to the additional and
11 separate non-resident surcharge. The resulting discriminatory
12 treatment of non-resident boxholders under the circumstances
13 is not justified.

14 The post office box fees proposed herein satisfy the
15 relevant statutory pricing criteria. The proposed box fees,
16 combined with caller service, provide a small addition to net
17 revenues and a low contribution to institutional costs. My
18 proposal insures that all boxes move toward covering their
19 costs, and creates a more equitable allocation of
20 institutional costs by group and box size.

1 COMMISSIONER HALEY: Are you ready for cross
2 examination of your witness now, counsel?

3 MS. DREIFUSS: Commissioner Haley, I know you have
4 before you two packets of designated interrogatory
5 responses.

6 I thought this might be the time at which you
7 would want to ask the witness about that.

8 COMMISSIONER HALEY: Yes.

9 MS. DREIFUSS: I do have one thing I wanted to
10 note on the packets that you have before you.

11 COMMISSIONER HALEY: All right.

12 MS. DREIFUSS: I took the liberty to make two
13 changes in a packet that had been prepared earlier today.

14 One change was that in the listing of the cross
15 examination designated by Douglas Carlson and the Postal
16 Service at the very end of the Postal Service's list I guess
17 Commission Staff had noted that the response to 19 was
18 revised on November 13th, but actually the most recent
19 revision to that response was November 14th, so I took the
20 liberty to mark that on the copy that you have before you,
21 that the revision to 19 that is in the packet was dated
22 November 14th.

23 In addition, I believe Mr. Callow will be
24 informing you that Number 30 had a typographical error.

25 COMMISSIONER HALEY: I see.

1 MS. DREIFUSS: And we did make -- we corrected
2 that typographical error in the two copies that you have
3 before you.

4 COMMISSIONER HALEY: Very well. Those will be so
5 noted.

6 Mr. Callow, have you had an opportunity to examine
7 the packet of designated written cross examination which was
8 made available to you earlier today?

9 THE WITNESS: Yes, I have.

10 COMMISSIONER HALEY: Yes. If these questions were
11 asked of you today, would your answers be the same as those
12 you previously provided in writing?

13 THE WITNESS: Yes.

14 COMMISSIONER HALEY: With the corrections that
15 have been noted?

16 THE WITNESS: Yes. The correction in USPS OCA-T-
17 300-30 is in the fourth line from the bottom of my response.

18 It has been reversed and it should read -- it
19 is -- the entire line should read, "Increase on the general
20 public since it is unable to provide"

21 COMMISSIONER HALEY: Very well. That's it?

22 THE WITNESS: That is it.

23 COMMISSIONER HALEY: Okay. Two copies of the
24 corrected designated written cross examination of witness
25 Callow will be given to the Reporter and I direct that it be

1 accepted into evidence and transcribed into the record at
2 this point.

3 [The Designated Written Cross-
4 Examination of James F. Callow was
5 received into evidence and
6 transcribed into the record.]

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POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Special Services Fees and Classifications

Docket No. MC96-3

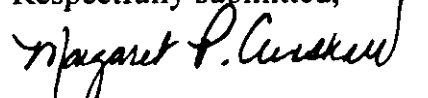
DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF OFFICE OF THE CONSUMER ADVOCATE
WITNESS CALLOW
(OCA-T300)

The parties listed below have designated answers to interrogatories directed to witness Callow as written cross-examination.

<u>Party</u>	<u>Answers To Interrogatories</u>
Douglas F. Carlson	USPS: Interrogatories T300-1-27(b), 28-34, 36(a)-(b), 37-38(b) and 39
U. S. Postal Service	USPS: Interrogatories T300-1-3, 5-17, 18-21, 22-26, 27(a) and (b), 29, 30-34, 36(a)-(b), 37-38(a)-(b) and 39 6 (revised 10/29/96), 15, 16, 19 (revised 11/18/96)

14

Respectfully submitted,



Margaret P. Crenshaw
Secretary

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T300-1-17

USPS/OCA-T300-1. Please refer to our [sic] testimony at page 4, lines 17-19. Do you agree that "these greater administrative burdens" would represent extra costs? If no, please explain fully.

A. The quoted phrase refers to greater administrative burdens associated with non-resident box service. Since the Postal Service has not quantified any attributable cost differences associated with providing box service to residents versus non-residents, or provided any studies on the frequency of cost-causing behaviors of residents versus non-residents, I do not know whether there are any extra costs for providing box service to non-residents. The fact that the Postal Service has not seen fit to quantify any alleged cost differences suggests that such a cost difference is insignificant.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T300-1-17

USPS/OCA-T300-2. Please refer to your testimony at page 8, lines 18-20 and to Transcript volume 3, page 691. Is it possible to justify a fee on the basis of "cost-causing" behavior by non-residents even if you cannot determine the precise amount of the cost? If your response is in the negative, please explain fully.

A. No. The Postal Service has not demonstrated that there are any cost differences associated with providing box service to non-residents vis-à-vis residents. Moreover, the non-resident fee should bear some relationship to costs. Since the alleged extra costs of non-resident box service are unknown, the Commission would not know where to set the fee in relation to costs.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T300-1-17

USPS/OCA-T300-3. Please refer to your testimony at page 9, lines 13-15. Is it your claim that witness Needham relied only on newspaper articles to "establish a link between the unavailability of post office boxes and non-resident usage?"

A. No. I only know what witness Needham said she relied on. I reviewed pages 25-31 in witness Needham's testimony. There were numerous references to LR-SSR-105, which is comprised of newspaper articles on post office box service. Witness Needham later obtained anecdotal information from postmasters and district managers concerning non-resident box usage which appeared in the supplemental response to OCA/USPS-T7-38. See Tr. 3/716-17 and 738. Although witness Needham did not specifically mention witness Landwehr's testimony concerning the unavailability of post office boxes and non-resident usage, it is possible she may have relied on witness Landwehr for this purpose with respect to Blaine, WA. I am not aware of other information relied upon by witness Needham for this purpose.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T300-1-17

USPS/OCA-T300-4. Please refer to your testimony at page 10, lines 2-4.

- (a) In what way(s) would non-residents be forced to move their box service under the Postal Service's proposal? Please provide all evidentiary support for your response.
- (b) Provide all information you have to support a claim that "forcing non-residents to move would [sic] simply shift box shortages to other post offices."

A. a.-b. The quoted portion of my testimony from page 10 is incomplete. I said: "What witness Needham fails to demonstrate is that forcing non-residents to move would not simply shift box shortages to other post offices."

Under the Postal Service's proposal, non-resident boxholders face three choices: pay the non-resident fee; not pay the non-resident fee and become resident boxholders at their local delivery post office; or no longer obtain box service from the Postal Service. To the extent non-residents become resident boxholders, box shortages could occur in other post offices. Apparently witness Needham did not consider this possibility. The Postal Service has provided no information on the number of non-resident boxholders that might become resident boxholders as a result of its proposal. I have no evidence on this point; it is a matter of logic.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T300-1-17

USPS/OCA-T300-5.

- (a) Please refer to page 11, lines 3 to 7 of your testimony, where you refer to witness Lion's finding that 38 percent of postal facilities have all boxes in use for at least one size category. Please confirm that such a situation does present a "post office box shortage problem" for the customer that wants a box of the particular size that is unavailable, at the prescribed fee for that box size. If you do not confirm, please explain.
- (b) Please refer to your testimony at page 12, lines 3-5, where you state that "a more realistic measure [sic] is to count only [sic] where no boxes of any size are available" (emphasis added). Please explain why this is a more realistic measure for those customers interested in a particular box size at the specified price.

A. a. Witness Lion grossly exaggerated the unavailability of post office boxes on a nationwide basis with his 38-percent figure. This is the point of my testimony. See OCA-T-300 at 11. For box size 1, 10 percent of post offices report all boxes of this size are in use. The percentages for box sizes 2, 3, 4 and 5 are, respectively, 13, 22, 12 and 5 percent. See USPS-T-4, Table 6, at 9. Thus, for a potential boxholder who desires a particular box size (and no other), the highest probability of finding a post office where all boxes are in use is 22 percent for a box size 3.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T300-1-17

CONTINUATION OF ANSWER TO USPS/OCA-T300-5:

b. This is a misquote of my testimony. The complete quote is, "A more realistic measure of resident boxholder hardship is to count only those offices where no boxes of any size are available."

For a resident seeking box service at the resident's local delivery office, the absence of any boxes available would preclude resident box service. Using Postal Service data, the probability that any one resident would face this situation is about 5 percent. See Attachment to Notice of OCA-LR-2. In other words, the fact that a resident could walk into 95 percent of all post offices from the PO Box Study and obtain a box seems to me a more realistic measure of hardship for potential resident boxholders.

Revised 10-29-96
ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T300-1-17

USPS/OCA-T300-6. Please refer to your testimony at page 11, lines 12-13.

- (a) Please provide any evidence you have to support your assertion that potential boxholders in post offices where all size 1 boxes are in use may still be willing to use a size 2 or size 3 box.
- (b) Do you believe that the potential boxholder would not care about the facts that size 2 boxes are at least 45 percent more expensive than size 1 boxes, and size 3 boxes are over 150 percent more expensive than size 1 boxes.

A. (a)-(b) See USPS-T-4, Table 11. Note first that this problem exists at only 10 percent (not 38 percent) of post offices. USPS-T-4, Table 6. A potential boxholder facing this problem would care. However, the average fee for the lowest-priced CMRA boxes is between 205 and 503 percent more expensive than a size 1 box. Compared to paying even higher fees for box service at a CMRA, a post office box size 2 or 3 would be attractive.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T300-1-17

USPS/OCA-T300-7. Please refer to page 12, lines 12-14 of your testimony.

- (a) Please explain why there is "no nationwide box availability problem" for those customers at facilities that have no boxes or that have boxes only in a size not wanted.

A. a. Potential boxholders have a 95-percent chance of obtaining box service at the post office of their choice on a nationwide basis. OCA-T-300 at 12. In my view, that does not constitute a nationwide box availability problem for any potential boxholder. If there is no non-resident fee, the probability of obtaining the box size of choice at a nearby post office for the same price is even higher. In the case of two post offices and box size 1—the most popular box size—the probability is almost 99 percent.

Even for potential boxholders seeking only box size 1, the chance of obtaining this box size at the post office of their choice is 88 percent $(1 - .11667 * 100)$.¹

¹ See Attachment to Notice of OCA-LR-2. Compare Table: Proportion Of Facilities With No Boxes Available (line 5) with the Table: Proportion Of Facilities With All Boxes Rented (line 5), which replicates Table 6 from USPS-T-4. The probability of no boxes of size 1 being available (11.667 percent) is not the same as the probability of all boxes size 1 rented (10 percent). For example, there can be no size 1 boxes available at an office where none are installed.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T300-1-17

USPS/OCA-T300-8. Please refer to your testimony at page 15, lines 20-21, and page 16, lines 1-2.

- (a) Are the current Group I fees with subgroups A, B, and C discriminatory? If no, please explain fully.
- (b) Since Group I and Group II both offer carrier delivery, is the large fee discrepancy between these two groups discriminatory? If no, please explain fully.

A. a.-b. Yes. Both within Group I and between Groups I and II, there are large, unexplained disparities in cost coverage. Group IC pays a much higher cost coverage for the same level of box service than Groups IA and IB. Group II pays no institutional costs at all. In developing my fee proposal, I tried to reduce the disparity in cost coverage by group. However, a real solution to this problem would require redefinition of groups.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T300-1-17

USPS/OCA-T300-9. Please refer to your testimony at page 16, lines 13-15, witness Carlson's testimony, and LR-SSR-105.

- (a) Does witness Carlson anywhere in his testimony provide reasons why customers desire non-resident box service? Please identify all cites.
- (b) Does LR-SSR-105 provide reasons why customers desire non-resident box service? Please identify all cites.

A. a. I cited witness Carlson in my testimony at page 27 with respect to the value of box service generally. I have neither cited nor examined witness Carlson's testimony for the purpose requested.

b. I cited LR-SSR-105 in my testimony at page 9 concerning the unavailability of post office boxes and non-resident usage. I have neither cited nor examined LR-SSR-105 for the purpose requested.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T300-1-17

USPS/OCA-T300-10. Please refer to your testimony at page 24, lines 10-13. Why would proposed fees that are below the fees recommended by the Commission and approved by the Governors in Docket No. R94-1 be "presumptively fair and equitable"?

A. The fees I propose that are unchanged from those recommended by the Commission and approved by the Governors are unquestionably fair and equitable. The fees I propose that are lower than the fees recommended by the Commission and approved by the Governors are balanced by proposed increases for Group II boxes, where fees are well below cost. The combination of the fee increases and decreases I propose produces a test year cost coverage that is equal to the cost coverage in the test year under the current fee schedule; i.e., that recommended by the Commission and approved by the Governors in Docket No. R94-1.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T300-1-17

USPS/OCA-T300-11. Please refer to your testimony at page 24, lines 19-21. Assume you proposed the Postal Service's proposed box fees for Subgroups IA and IB. Could your proposed Group IC fees have then been adjusted down from the Postal Service's proposal to move the Subgroup IC cost coverage closer to the Subgroups IA and IB cost coverages?

A. The mathematical exercise you describe is possible.

However, I rejected this option on policy grounds when developing my fee proposal. This option would have resulted in a large revenue gain and a cost coverage greater than 100 percent—the cost coverage in the test year at the Commission's recommended fees.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T300-1-17

USPS/OCA-T300-12. Please refer to your testimony at page 25, lines 15-20 and your Table 2. Why do you feel it is necessary to propose a cost coverage below 100 percent for Subgroup IA, sizes 4 and 5, and Subgroup IB, sizes 4 and 5?

A. I did not attempt to propose a 100 percent cost coverage for every box size. In developing my fee proposals, I attempted to balance several goals while maintaining contribution neutrality. One was to reduce the disparity in cost coverage by box size. I also attempted to, and succeeded in, moving the cost coverage for box size 5 closer to 100 percent than it would be under current fees.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T300-1-17

USPS/OCA-T300-13. Please refer to your testimony at page 26, lines 8-10. Would the disparity between Group I and Group II fees still be reduced under the Postal Service's proposal. Please explain your answer fully.

A. Yes. However, in contrast to the Postal Service's proposal for Group IC and Group II fees, my proposal results in a much smaller disparity between Group IC and Group II fees. This is a consequence of my proposal to reduce Group IC box fees from current levels. My fee proposal for Group IC and Group II also addresses the disparity in cost coverages by group and box size. However, a real solution to this problem would require redefinition of groups.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T300-1-17

USPS/OCA-T300-14. Please refer to page 26, line 19 of your testimony.

- (a) Please explain why "post office box service offers relatively low value".
- (b) Does this mean low relative to alternatives such as CMRAs.
- (c) Does this imply a low or high price elasticity?

A. a. See OCA-T-300, page 26, lines 19-21 through page 27, lines 1-5.

b. My comparison was to carrier delivery service.

However, post office box service offers low value relative to CMRAs. CMRAs offer services not available with post office box service, such as call-in checking for mail, notaries public, and suite or box address numbers.

c. Although I am not an economist, it is my understanding that price elasticity is a measure of marginal value. My responses to a. and b. above involve considerations of total value. There is no necessary relationship between total and marginal values; that is, two different functions can have the same slope, or marginal value. My testimony makes no reference to price elasticity as a measure of the value of post office box service actually provided to senders and recipients. Rather, I compare the value actually provided to recipients of various means of receiving their mail.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T300-1-17

USPS/OCA-T300-15. Witness Sherman at page 29, lines 19-21 of his testimony argues that it "would not be unreasonable" to raise Group II fees to cover costs.

- (a) Do you agree with witness Sherman's statement? If not, please explain.
- (b) Why are you proposing Group II box fees that are below cost?

A. a. Yes. It is not unreasonable, and I treated it as a goal.

b. A 100 percent cost coverage for some Group II boxes would have required fee increases of 231 to 275 percent. The goal of increasing Group II fees to cover cost was offset, to some extent, by consideration of the impact of such fee increases on boxholders. Also, fee increases of this magnitude would have produced a large increase in revenue, thereby exceeding the test year cost coverage, at Commission-recommended fees, of 100 percent. A real solution to this problem would require redefinition of groups.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T300-1-17

USPS/OCA-T300-16. Please refer to your testimony at page 27, lines 15-17.

- (a) Why do you propose a lower cost coverage for post office box and caller service than the 115 percent cost coverage recommended by the Commission in Docket No. R94-1?
- (b) What changes in post office box service justify this decrease in cost coverage?
- (c) Do you believe that post office box and caller service have a lower value of service now than during Docket No. R94-1?
- (d) Has the Commission ever recommended a cost coverage for post office box and caller service as low as the 115 percent cost coverage recommended by the Commission in Docket No. R94-1?
- (e) Please explain why there should be no markup to cover institutional costs on post office box and caller service.

A. a.-c. and e. My proposed fees are in keeping with the contribution neutral premise of classification reform, as explained in the testimony of OCA witnesses Sherman and Thompson.

The Commission's recommended cost coverage in Docket No. R94-1 for post office boxes is not a legitimate benchmark. This is clearly not a case in which FY 96 cost coverages are being equated with R94-1 recommended cost coverages. Only the 100 percent cost coverage in the test year of this proceeding resulting from the Commission's R94-1 recommended fees is relevant. Since this is not a general rate proceeding, I make no

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T300-1-17

CONTINUATION OF ANSWER USPS/OCA-T300-16:

reference to the Commission's recommended cost coverage in a different test year. Moreover, the fees I propose for post office box service produce a cost coverage of 101 percent that is virtually equal to the test year cost coverage at the Commission's R94-1 recommended fees.

d. Note: As per a telephone call between Postal Service and OCA counsel on October 18, 1996, subpart (d) has been revised as follows: "Has the Commission[, in any other docket,] recommended a cost coverage for post office box and caller service as low as the 115 percent cost coverage recommended by the Commission in Docket No. R94-1?"

Answer. I do not know. I have not reviewed prior Commission recommended decisions to determine the cost coverages recommended by the Commission for post office box service. As this is not a general rate case, no such review was necessary or appropriate.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T300-1-17

USPS/OCA-T300-17. How does your post office box fee proposal reflect the fact, as presented by witness Needham (USPS-T-7 at 11-13), that CMRAs generally charge considerably more for boxes than the Postal Service.

A. See OCA-T-300, page 28, where I discuss the available alternatives. Since I propose a cost coverage equal to that resulting from current fees in the test year, my fee proposal takes into account the level of CMRA fees to the same extent as the current fees which were recommended by the Commission and approved by the Governors in Docket No. R94-1.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T300-18-21

USPS/OCA-T300-18. Please provide the complete derivation, including diskettes for any spreadsheets, of the cost per box data in OCA-LR-3, pages 1 and 3, column 3, as revised October 8, 1996. In particular, please explain how the total costs for post office boxes provided in USPS-T-5, Exhibit E, at 8 are separated into the three components of costs used in LR-SSR-119.

A. See revised library reference, OCA-LR-3, filed November 5, 1996. The library reference has been expanded to include spreadsheets containing calculations used to develop the cost per box figures shown in column 3 on pages 1 and 3 of OCA-LR-3, filed October 8, 1996. Please note that the revisions make no changes in the cost per box figures shown in column 3.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T300-18-21

USPS/OCA-T300-19. Please refer to your testimony at page 26, line 17, to page 27, line 1. Are you saying that post office box customers receive a lower value of service from their post office box service than they get from carrier delivery? If so, why do you think these customers are choosing post office box service, instead of or in addition to carrier delivery?

A. My post office box fee proposal raised virtually no additional revenue in order to maintain contribution neutrality, i.e., I designed post office box fees so that the cost coverage resulting from my proposed fees is virtually the same as that recommended by the Commission in the test year under current fees. Consequently, I have effectively adopted the Commission's value of service determinations for post office boxes. Having said that, however, I do not necessarily believe box service is of lower value than carrier service.

Potential boxholders face trade-offs between the privacy and security of box service at a price, and free delivery to their home. Valued box features, such as privacy and security, are offset by limited hours of access to post office box sections. OCA-T-300 at 27. By contrast, mail delivered via carrier to the home is available 24 hours a day. Moreover, "free" delivery may not be cost free. Theft of carrier-delivered mail may create negative value. For such boxholders, box service is marginally more valuable than free delivery, but it does not follow that box service has a high value—merely that there is some positive

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T300-18-21

CONTINUATION OF ANSWER TO USPS/OCA-T300-19:

value. The magnitude of that value cannot be determined solely from the decision to purchase the service.

Nevertheless, considerations of the value of box service relative to carrier service, and other postal services, are more appropriate for an omnibus rate case.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T300-18-21

USPS/OCA-T300-20. Please refer to your testimony at page 27, lines 3-5. Please provide specific cites to witness Carlson's testimony where he discusses the low value of post office box service.

A. I relied on the following portions of witness Carlson's testimony concerning the low value of box service:

Page 2, lines 7-14;

Page 3, lines 16-21. At some post offices with box sections, space for automobile parking is nonexistent or difficult to obtain, or involves additional expense for boxholders. To secure 24-hour (or sufficiently long) access to post office box sections, some boxholders obtain box service near their place of employment. If boxholders do not live near their place of employment, additional time and expense is required to obtain mail on Saturdays.

Page 9, lines 13-20. At some post offices with box sections, concern about personal safety related to the location of the post office might preclude the boxholder from obtaining mail at certain times.

Page 9, lines 24-27, and Page 10, lines 1-2; and,

Page 10, lines 20-22.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T300-18-21

USPS/OCA-T300-21. Please refer to your testimony at page 28, lines 15-18. Please provide a table comparable to that provided by witness Needham, at USPS-T-7, Table IV, at 12, showing the percentage difference between your proposed Group I, size 1 fees and the CMRA fees presented in USPS-T-4, Table 11 at 22.

A.

Group	Current Box Size 1 Fee	OCA Proposed Box Size 1 Fee	CMRA Average Fee Smallest Box	Percent Difference From Current	Percent Difference From OCA Proposed
IA	\$24.00	\$24.00	\$144.78	503%	503%
IB	\$22.00	\$22.00	\$80.82	267%	267%
IC	\$20.00	\$16.00	\$60.96	205%	281%

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T300-22-27a.-b. AND 28-29

USPS/OCA-T300-22. On page 1, column 9 of OCA-LR-3, TYAR Total Costs for post office boxes are reported to be \$466,254,352.

- a. Please explain the derivation of this figure in detail, providing all spreadsheets, workpapers and other related documents.
- b. Please explain in detail why TYAR Total Costs for post office boxes of \$466,254,352 differ from the TYAR total attributable costs for post office boxes of \$516,598,000 shown in Exhibit USPS-T-5I, page 2.
- c. In deriving the TYAR Total Costs for post office boxes of \$466,254,352, did you assume that post office box attributable costs would decline in a larger proportion or by a larger percentage than the decrease in the number of post office boxes in use? If so, please explain the rationale underlying this assumption in detail. If not, please explain in detail what assumptions you did make.
- d. Please explain in detail all evidence or other supporting data which indicate that a decrease in the number of post office boxes in use would be accompanied in the test year by a like decrease in the space and rental related costs associated with post office boxes.
- e. Is it your testimony that postal facilities, in the test year, would convert the space to other uses or activities? If so, please explain in detail all evidence or other supporting data for this conclusion.
- f. In USPS-T-5, Appendix B, lines 10-14, witness Patelunas stated, "Additionally, it was assumed that there would be no change in the space and rental related costs associate [sic] with the decrease in Post Office Boxes in use because these costs would not respond immediately in the test year, but rather, they would respond some time after the test year." Do you disagree with this statement? If so, please explain why in detail and discuss all evidence or other supporting data for your contrary conclusion.

A. a.-f. See revised library reference OCA-LR-3, filed November 5, 1996. The revised figure for TYAR Total Costs in column [9] for all post office boxes is \$518,452,742. Since this cost corresponds to the Postal Service's rate proposal without the

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T300-22-27a.-b. AND 28-29

CONTINUATION OF ANSWER TO USPS/OCA-T300-22:

non-resident surcharge, it makes sense that this figure is slightly larger than witness Patelunas' TYAR cost of \$516,598,000 because volumes are slightly larger. In calculating the TYAR Total Costs figure of \$518,452,742, I assumed that there would be no change in total Space Support and Space Provision costs in the test year. Only the total cost for All Other varies due to volume changes in the test year.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T300-22-27a.-b. AND 28-29

USPS/OCA-T300-23. At page 23, lines 1-2 of your testimony, you state, "My proposal relies on cost estimates presented by Postal Service witness Lion (USPS-T-4)." Please confirm that you used Postal Service cost data to derive your post office box proposal rather than the Commission's costs presented in PRC-LR-1 and 2.

- a. If you do not confirm, please explain in detail.
- b. If you did not review and/or consider the Commission's costs presented in PRC-LR-1 and 2 to derive your post office box proposal, why did you need an extension of time from September 25, 1996 to September 30, 1996 to prepare and file your testimony?

A. Confirmed.

- a. Not applicable.

b. I did not ask for a new filing date, nor was I involved in the OCA's decision to support MMA's motion for an extension of time.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T300-22-27a.-b. AND 28-29

USPS/OCA-T-300-24. OCA witness Sherman says that "[t]here is a broad general problem in pricing post offices boxes that is not considered explicitly in the [Postal Service's] proposal. That problem is that there may be a cost savings in delivery to a post office box rather than to a business or residence." OCA-T100, page 27, lines 1-4. At pages 24-29 of your testimony, you discuss various pricing criteria of the Postal Reorganization Act. In that discussion, you do not address OCA witness Sherman's "problem in pricing post office boxes."

- a. Do you disagree with witness Sherman's assessment? Please explain in detail.
- b. If you do not disagree with witness Sherman, then why did you not address his idea in the context of the pricing criteria of the Act? Please explain in detail.

A. a.-b. I agree with witness Sherman's assessment that there may be cost savings in delivery to a post office box rather than to a business or residence. The absence of appropriate data on this point prevented me, in this proceeding, from setting box fees to reflect such potential savings. See witness Sherman's response to USPS/OCA-T100-36. Likewise, I did not address potential cost savings in my consideration of the pricing criteria of the Act.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T300-22-27a.-b. AND 28-29

USPS/OCA-T300-25. Please refer to OCA-LR-3, Post Office Boxes USPS Proposal, page 1.

- a. Please confirm that columns 1 (TYBR number of boxes) and 2 (TYAR number of boxes) represent post office boxes in use. If you do not confirm, please explain in detail.
- b. Please confirm that columns 8 (TYBR Total Costs) and 9 (TYAR Total Costs) were both calculated using the same cost per box from column 3. If you do not confirm, please explain in detail.
- c. Please confirm that the cost per box from column 3 was calculated using witness Patelunas's TYBR post office box attributable cost figure of \$529,374,000 from Exhibit USPS-T-5E, at 8. If you do not confirm, please explain in detail.
- d. Is it your testimony that the unit cost per box for post office boxes in use would remain the same in the test year before rates and the test year after rates? Please explain fully.

A. a. and c. Confirmed.

b. Partially confirmed. The USPS TYBR Total Costs in column [8] were calculated using the per box costs in column [3]. The TYAR Total Costs in column [9] were not calculated using the per box costs of column [3]. See revised library reference OCA-LR-3 at 2, Note [9], filed November 5, 1996.

d. No. For each box, per box costs consist of space support, space provision and all other costs. The per box cost is calculated separately for each category and then summed. Space provision costs are calculated based on a capacity factor and

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T300-22-27a.-b. AND 28-29

CONTINUATION OF ANSWER TO USPS/OCA-T300-25:

rental costs per square foot derived in LR-SSR-99. (The rental costs per square foot represent the unweighted average of the rental cost per square foot for each facility, not the ratio of total cost to total area for all facilities in the delivery group.) The same process is used in the test year after rates. However, per box costs in the test year after rates will differ even though total space support and space provision costs are constant. This is because the all other costs vary with volume, the total space-related costs are allocated to each box size based on the after-rates volumes, and the after-rates volumes differ from the before-rates volumes. See revised library reference OCA-LR-3, filed November 5, 1996.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T300-22-27a.-b. AND 28-29

USPS/OCA-T300-26. Please refer to OCA-LR-3, Post Office Box and Caller Service OCA Proposal, page 3.

- a. Please confirm that columns 1 (USPS TYBR number of boxes) and 2 (OCA TYAR number of boxes) represent post office boxes in use. If you do not confirm, please explain in detail.
- b. Please confirm that columns 8 (USPS TYBR Total Costs) and 9 (OCA TYAR Total Costs) were both calculated using the same cost per box from column 3. If you do not confirm, please explain in detail.
- c. Please confirm that the cost per box from column 3 was calculated using witness Patelunas's TYBR post office box attributable cost figure of \$529,374,000 from Exhibit USPS-T-5E, at 8. If you do not confirm, please explain in detail.
- d. Is it your testimony that the unit cost per box for post office boxes in use would remain the same in the test year before rates and the test year after rates? Please explain fully.

A. a. and c. Confirmed.

b. Partially confirmed. The USPS TYBR Total Costs in column [8] were calculated using the per box costs in column [3]. The OCA TYAR Total Costs in column [9] were not calculated using the per box costs of column [3]. See revised library reference OCA-LR-3 at 4, Note [9], filed November 5, 1996.

d. No. See my response to USPS/OCA-T300-25d.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T300-22-27a.-b. AND 28-29

USPS/OCA-T300-27. On page 15, line 21-page 16, line 2 of your testimony, you state that "The Postal Service's discriminatory treatment of non-resident boxholders through the proposed non-resident surcharge is unfair and inequitable".

- a. Please provide the criteria upon which you have based your statement that a non-resident surcharge is unfair and inequitable.
- b. Under what circumstances or criteria would a non-resident surcharge be fair and equitable? Please explain fully.
- c. Do you consider the higher charges imposed on Metro riders in the Washington, D.C. area during rush hours to be unfair and inequitable? Please explain why or why not.
- d. With respect to Metro, please assume that the cost per rider is not higher during rush hour than at other times. How would that assumption affect your view about the fairness and equity of higher rush hour fares?

A. a. The Postal Service has not established that non-resident boxholders engage in cost-causing behaviors or activities that are different in kind than residents, or that non-residents engage in those or other activities in a significantly greater frequency than residents. The Postal Service's evidence is anecdotal on these points and limited to three admittedly atypical post offices.

USPS-T-3 at 10. Moreover, the Postal Service justifies the non-resident surcharge, in part, on the ground that non-residents are the cause of a shortage of boxes for residents. This is not supported by the evidence. OCA-T-300 at 12. The failure to establish these elements makes the non-resident surcharge unfair and inequitable.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T300-22-27a.-b. AND 28-29

CONTINUATION OF ANSWER TO USPS/OCA-T300-27:

b. It is premature to speculate on what would be a fair and equitable non-resident surcharge given the absence of critical information. The following should be considered a base level of information needed for considering questions of fairness and equity with respect to a non-resident surcharge: Identify and quantify attributable costs associated with providing box service to non-resident boxholders. See OCA-T-300 at 5, lines 15-19. Establish that non-resident boxholders have a greater propensity to "present costlier situations" than resident boxholders. *Id.* at 7, lines 15-17. Determine whether the existence of post office box shortages is a nationwide problem for resident boxholders. *Id.* at 11, lines 3-4. Provide data on the number of boxholders subject to the Postal Service's definition of non-resident boxholders. *Id.* at 13, lines 14-15. With respect to market research, distinguish between resident and non-resident boxholders in testing the price sensitivity of non-resident boxholders to the non-resident surcharge. *Id.* at 15, lines 1-4.

c. Redirected to witness Sherman.

d. Redirected to witness Sherman.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T300-22-27a.-b. AND 28-29

USPS/OCA-T300-28. On page 17 lines 6-8 of your testimony, you state that "[i]mplementing the proposed non-resident surcharge in the absence of critical costing information and demonstrated need would be unfair and inequitable".

- a. Specifically, what need would have be demonstrated to make the non-resident surcharge fair and equitable and how could it be demonstrated?
- b. What costing data would be needed to make the non-resident surcharge fair and equitable and how could it be obtained? Please explain fully.

A. a.-b. See my response to USPS/OCA-T300-27b.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T300-22-27a.-b. AND 28-29

USPS/OCA-T300-29. On page 26, line 18-page 27, line 1 of your testimony, you state that:

Post office box service offers relatively low value. Box features such as privacy and security are offset by more limited boxholder access to the mail at post office box sections, as compared to carrier delivery.

- a. Please explain your conclusion that access to mail is more limited for boxholders than those receiving carrier delivery, including all data and other relevant information to support this claim.
- b. Please explain how you determined that the value of privacy and security are offset by more limited boxholder access to the mail at post office box sections, as compared to carrier delivery, providing all data and other relevant information to support your claim.

- A. a. See OCA-T-300 at 27, lines 1-3.
- b. See my response to USPS/OCA-T300-19.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T300-30-34, 36(a)-(b),
37-38(a)-(b) and 39

USPS/OCA-T300-30. Please refer to your testimony at page 14, lines 9-12, and witness Needham's discussion with Chairman Gleiman at Tr. 3/857-60. Please confirm that witness Needham stated that she was not able to determine residency for purposes of the non-resident fee because she did not have adequate information about where the migrant workers and their families lived. Tr. 3/860. If you do not confirm, please explain.

A. Confirmed as to her statement. However, witness Landwehr states that many migrant workers leave their families in the San Luis area, both in the US and Mexico. USPS-T-3 at 6. Surely, migrant workers who leave their families (i.e., live,) in Mexico and seek post office box service are non-residents for purposes of the surcharge. Moreover, this confirms my general statement that the Postal Service does not know the effect of this fee increase on the general public since ^{it is} ~~is it~~ unable to provide estimates of the number of boxholders subject to witness Needham's definition or the definition in Attachment B to the Postal Service's Request. OCA-T-300 at 13.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T300-30-34, 36(a)-(b),
37-38(a)-(b) and 39

USPS/OCA-T300-31. Please refer to the last sentence of your responses to USPS/OCA-T300-8, 13, and 15, where you mention that "a real solution to this problem [of Group I and II fee disparities, and Group II fees failing to cover costs] would require redefinition of groups." Please elaborate on how post office box service groups could be redefined to solve the problems you mention.

A. The response of the Postal Service to OCA/USPS-88 suggests that post office box costs decline for smaller CAGs. Indicative of this possibility is that, in general, the average rental cost in dollars per square foot declines as the size of the CAG declines. See Response of the Postal Service to OCA/USPS-88h. The response also shows that both Group IC and Group II have facilities in almost all CAGs. It seems clear that the current grouping is not cost-based. If Group IC were redefined as "large" facilities (e.g., CAGs A-E,) and Group II as "small" facilities (e.g., CAGs F-L,) it might well turn out that current rates cover costs for both groups.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T300-30-34, 36(a)-(b),
37-38(a)-(b) and 39

USPS/OCA-T300-32. Please refer to your response to USPS/OCA-T300-1.

- (a) Assuming there are greater administrative burdens associated with non-resident box service, do you believe that those burdens would not increase Postal Service costs above what costs would be if there were no such administrative burdens?
- (b) Do you disagree with witness Landwehr's conclusion that "the high number of non-resident customers increases the workload and consequent demand for resources" in Middleburg, Blaine, San Luis, and similar offices? USPS-T-3 at 10. Please explain your response fully.
- (c) Please confirm that unless costs are quantified you do not believe they can be used to support a proposal for an additional fee that would cover such costs. If you do not confirm, please explain.

A. (a) According to the Postal Service, greater administrative burdens equal greater costs. Consequently, under this assumption, there would be costs. The real question is, What are the attributable cost differences of providing box service to non-residents versus residents? This is unknown, and the absence of this information suggests that such a cost difference is insignificant.

(b) For the three offices cited, I would agree. However, there is no evidence that this is a nationwide problem, or what the consequent demand for resources on attributable costs is given the absence of costing data.

(c) Confirmed. How could one know that a fee covered costs when the costs themselves are unknown?

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T300-30-34, 36(a)-(b),
37-38(a)-(b) and 39

USPS/OCA-T300-33. Please refer to your response to USPS/OCA-T300-5.

- (a) Please confirm that witness Lion's 38-percent figure does not "grossly exaggerate" the proportion of offices in which all boxes of at least one size are in use? If you do not confirm, please explain.
- (b) In part (b) of your response, you state that "the probability that any one resident would face this situation [the absences of any boxes available] is about 5 percent." Are you assuming that the 5 percent of offices at which all boxes are in use account for 5 percent of all Postal Service boxes? Please explain your response.
- (c) What proportion of total Postal Service boxes do these offices represent? Please explain the derivation of your response.

A. (a) I can confirm this correct but misleading figure. The 38-percent figure is misleading because it grossly exaggerates the problem being studied. That is, the proportion of offices in which all boxes of at least one size are in use is irrelevant to the problem of potential boxholders being unable to obtain a box at all. Looked at another way, the 38-percent figure makes sense only if you believe that a potential boxholder seeks box service for all installed box sizes at the same time, and refuses the box service if any one of the installed box sizes is rented. This is unrealistic.

(b) No. My response to part b. of USPS/OCA-T300-5 clearly indicates that the 5-percent figure refers to the percent of post offices (not "all Postal Service boxes") where no boxes are available.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T300-30-34, 36(a)-(b),
37-38(a)-(b) and 39

CONTINUATION OF ANSWER TO USPS/OCA-T300-33:

(c) The requested proportions are available from Tables 3 and 4 of USPS-T-4. Dividing the "Total" row in Table 4 by the "Total" row in Table 3 produces the percentages. For example, 82 percent ($7,292,236/8,846,747$) of the size 1 boxes installed are in use. Knowing this is of little value, although 82 percent is certainly more impressive than 38 percent. A potential boxholder seeking a box size 1 does not care that 82 percent of size 1 boxes nationwide are in use since the boxholder only cares about whether there is at least one box size 1 available. Indeed, if the 82-percent figure applied equally to every post office, the potential boxholder could expect about 18 out of every 100 size 1 boxes to be available wherever they are installed. As this example illustrates, the proportion of boxes available on a nationwide basis is far less meaningful than whether a post office has any boxes available.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T300-30-34, 36(a)-(b),
37-38(a)-(b) and 39

USPS/OCA-T300-34. Please refer to your response to
USPS/OCA-T300-10, where you state that:

The combination of the fee increases and decreases I
propose produces a test year cost coverage that is
equal to the cost coverage in the test year under the
current fee schedule; i.e., that recommended by the
Commission and approved by the Governors in Docket No.
R94-1.

- (a) Please confirm that the phrase "that recommended by the
Commission and approved by the Governors in Docket No.
R94-1" refers to the current post office box and caller
service fee schedule, rather than the projected before rates
"cost coverage in the test year" (100 percent). If you do
not confirm, please explain fully.
- (b) Did the Commission in its Docket No. R94-1 Opinion and
Recommended Decision endorse in any way a 100 percent cost
coverage for post office box and caller service? Please
explain your answer fully.
- (c) Please confirm that the 100 percent cost coverage resulting
from the fees you propose for post office box and caller
service was pre-determined to match the before rates cost
coverage, independent of any analysis of the pricing
criteria in 39 U.S.C. §3622(b). If you do not confirm,
please explain fully.
- (d) If Docket No. MC96-3 were an omnibus rate case, would you
support a 100 percent cost coverage for post office box and
caller service based on the pricing criteria in 39 U.S.C.
§3622(b)? Please explain your response fully.

A. (a) Confirmed.

(b) No. However, it is likely that the Commission fully
expected cost coverages to decline in years after the test year
for R94-1.

(c) Partially confirmed. My post office box fees were
designed to maintain the overall contribution-neutral cost

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T300-30-34, 36(a)-(b),
37-38(a)-(b) and 39

CONTINUATION OF ANSWER TO USPS/OCA-T300-34:

coverage of approximately 100 percent in the test year, virtually the same as recommended by the Commission in the test year under current fees. However, this does not mean my proposed fees were made independent of any consideration of the pricing criteria of the Act. For example, I considered "the effect of rate increases" when proposing the 100-percent fee increase for Group II boxholders. OCA-T-300 at 28.

(d) In an omnibus rate proceeding, I would likely consider another cost coverage for post office boxes and caller service.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T300-30-34, 36(a)-(b),
37-38(a)-(b) and 39

USPS/OCA-T300-36. Please refer to your response to USPS/OCA-T300-16, where you state that your proposed fees "are in keeping with the contribution neutral premise of classification reform", and "produce a cost coverage of 100 percent that is equal to the test year cost coverage at the Commission's R94-1 recommended fees."

- (a) Please confirm that, if the underlying costs change for a hypothetical service with an initial target cost coverage of other than 100 percent, a contribution neutral premise would lead to a different cost coverage than the initial target cost coverage for that service at the Commission's R94-1 recommended fees. If you do not confirm, please explain fully.
- (b) Please confirm that the Commission recommended fees for post office box and caller service in Docket No. R94-1 that were projected to produce a \$75,091,000 contribution to institutional cost in the FY 1995 test year in that docket. See PRC Op., App. G, Sch. 1. If you do not confirm, please explain fully.
- (c) Suppose the Postal Service had used FY 1995 as its test year in Docket No. MC96-3, instead of FY 1996. Under your view of the "contribution neutral premise of classification reform", should proposed post office box and caller service fees then have been designed to produce the \$75,091,000 contribution for post office box and caller service recommended by the Commission for FY 1995? Please explain your answer fully.

- A. (a) Confirmed.
- (b) Confirmed.
- (c) Objection filed.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T300-30-34, 36(a)-(b),
37-38(a)-(b) and 39

USPS/OCA-T300-37. Please refer to your response to USPS/OCA-T300-16. Please reconcile your statement that "[t]his is clearly not a case in which FY 96 cost coverages are being equated with R94-1 cost coverages," with witness Lyons' comparison of Docket No. MC96-3 cost coverages with the systemwide Docket No. R94-1 cost coverage.

A. The fact that the Postal Service believes it is proper to compare the cost coverages for a few special services in this limited classification case to the Docket No. R94-1 recommended cost coverages does not make it so. Using this logic, if the test year cost coverages are supposed to be at least as high as the fiscal year 1995 cost coverages at the R94-1 recommended rates, then it follows that all subclasses and special services whose cost coverages have fallen should be in play. See the response of witness Thompson to USPS/OCA-T400-21, revised November 6, 1996.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T300-30-34, 36(a)-(b),
37-38(a)-(b) and 39

USPS/OCA-T300-38. Please refer to your response to USPS/OCA-T300-17.

- (a) Please confirm that, to the extent the Commission took into account the level of CMRA fees in Docket No. R94-1, that consideration is reflected in the Commission's recommendation of a cost coverage for post office box and caller service of 115.4 percent, not 100 percent, in that docket. If you do not confirm, please explain fully.
- (b) How can the 100 percent cost coverage resulting from your fee proposal reflect the level of CMRA fees to the same extent as the 115.4 percent cost coverage associated with the post office box and caller service fees recommended in Docket No. R94-1?
- (c) Please confirm that the higher level of CMRA fees compared to Postal Service box fees would justify a higher cost coverage for post office box and caller service, than if CMRA fees were not higher than Postal Service box fees. If you do not confirm, please explain.
- (d) If the Postal Service has obtained new information about CMRA fees following Docket No. R94-1, can that information be reflected in the cost coverage for post office box and caller service through an interim Commission case before the next omnibus rate case? Please explain your answer fully.

A. (a) I can confirm that the Commission recommended a cost coverage for post office box and caller service of 115.4 percent in Docket No. R94-1.

(b) See my response to USPS/OCA-T300-34b.

(c) Objection filed.

(d) Objection filed.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T300-30-34, 36(a)-(b),
37-38(a)-(b) and 39

USPS/OCA-T300-39. Please refer to OCA-LR-3 (Revised) at page 5.

- (a) Please confirm that the USPS Accept Rates in column (d) were based on responses to a survey by existing post office box service customers only (as modified in the Appendix to USPS-T-1). See, e.g., USPS-T-6 at 1, lines 12-13. If you do not confirm, please explain.
- (b) Please confirm that the elasticities you derived in column (g) are thus based on the response of current boxholders to the increased fees in the Postal Service's proposal. If you do not confirm, please explain.
- (c) Please confirm that you applied the elasticities in column (g) to calculate in column (k) the increase in the number of boxes resulting from decreased fees for Group IA, box sizes 2 and 3; Group IB, box sizes 2 and 3; and Group IC, all box sizes. If you do not confirm, please explain.

A. (a) Not confirmed. The accept rates estimated by the market research sponsored by witness Ellard were far lower.

Witness Lyons adjusted the market research accept rates upward to a point midway between 100 percent acceptance and the acceptance rate estimated by the survey. While the market research accept rates were based only on current customers, the adjusted rates have little to do with rates actually reported by the survey respondents.

(b) Not confirmed. The elasticities used in OCA-LR-3 are based on the Postal Service's accept rates derived from the adjusted market research results. The Postal Service's adjusted accept rates were used to make my analysis as comparable to that of witness Lyons as possible.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T300-30-34, 36(a)-(b),
37-38(a)-(b) and 39

CONTINUATION OF ANSWER TO USPS/OCA-T300-39:

(c) Confirmed. The same methodology was used to calculate column (k) for each delivery group and box size. The elasticities are designed to reflect volume sensitivity to price changes in the same manner such elasticities were used by the Postal Service. However, the question seems to imply that using the column (g) elasticities to calculate an increase in the number of boxes is somehow problematic. This concern is misplaced. Although I am not an economist, I understand that the elasticities represent a slope. In this instance, the slope is used as a surrogate for an unknown demand curve. Moving to the right (down) or the left (up) on the slope can be used to approximate the demand curve for estimating increases or decreases in volume resulting from a decrease or increase, respectively, in fees.

1 COMMISSIONER HALEY: Does any participant have
2 additional written cross examination of witness Callow?

3 [No response.]

4 COMMISSIONER HALEY: Okay.

5 [Pause.]

6 COMMISSIONER HALEY: Earlier today the Presiding
7 Officer had indicated at this juncture we would expect OCA
8 counsel to respond to the Postal Service motion to compel
9 responses to interrogatories, USPS OCA T300-35, 36C, 38C and
10 D have -- Mr. Costich this morning explained that these
11 questions should be, more properly should have been
12 addressed to OCA witness Thompson.

13 Postal Service agreed to pose questions on these
14 topics to witness Thompson during a cross examination. As a
15 result of these events, does the Postal Service withdraw its
16 motion to compel addressed to witness Callow?

17 MR. HOLLIES: Yes. I was wondering whether
18 withdrawal was necessarily what we have chosen to do.

19 We did pose those questions this morning and we do
20 not propose to revisit them, so I suppose it would be safe
21 to say that we withdraw that motion.

22 COMMISSIONER HALEY: Very well. Thank you.

23 Only one participant, the United States Postal
24 Service, has requested oral cross examination of witness
25 Callow.

1 Does any other participant have oral cross
2 examination for witness Callow?

3 [No response.]

4 COMMISSIONER HALEY: Okay. Before we begin, OCA
5 filed an objection to a cross examination exhibit that the
6 Postal Service transmitted to OCA on Friday. As I
7 understand it, the cross examination exhibit provides
8 estimates of test year revenue assuming particular facts.
9 Mr. Hollies, can we ask what types of questions did you
10 intend to premise on this exhibit?

11 MR. HOLLIES: Well, there have been some further
12 developments. When I provided the cross-examination exhibit
13 on Friday, the OCA was unable to basically verify that it
14 was what I said it was. My understanding is that those
15 problems have now been worked out and at least^{as} between the
16 OCA and the Postal Service we understand what it is. I am
17 also given to understand that the OCA does expect to renew
18 its objection to the use of the exhibit itself, regardless
19 of what it actually is.

20 There is a logical place in the structure of the
21 questions that I will be asking wherein that objection could
22 be posed and, by that point, I should hope to have
23 established the foundation for the exhibit. But in essence
24 what it does is it tests one assumption that is made by
25 Witness Callow in his analysis of the cost coverage that the

1 OCA box fee proposal would produce and I intend to propound
2 questions challenging that assumption.

3 We believe that it has a specific error of
4 direction for two reasons which I believe we can establish
5 and, as such, what the exhibit tries to do is put in play a
6 different assumption. Basically to put it in a nutshell,
7 Mr. Callow is working with an acceptance rate for projected
8 new box customers that we believe is unduly optimistic and
9 so what the exhibit is intended to do is put in an unduly
10 pessimistic but countervailing ⁱⁿ and roughly equal proportions
11 assumption to see what the cost coverage comes out as. The
12 net result of that, from our perspective, simply is that the
13 cost coverage of the OCA model comes out with a range of
14 potential values ranging from 95 to 101 percent, whereas
15 Mr. Callow's testimony at its most recent revision I believe
16 comes out at simply 101 percent with no range statement.

17 COMMISSIONER HALEY: Thanks for your explanation
18 there.

19 We will allow general questions of this nature. I
20 don't see how the cross-examination exhibit will help
21 clarify the record on Mr. Callow's expectations but we will
22 sustain the OCA objection to the use of this table as a
23 cross-examination exhibit.

24 MR. HOLLIES: Could I ask what the basis for that
25 ruling is?

1 COMMISSIONER HALEY: Based on, as I said, we will
2 allow general questions of this nature and then we will be
3 listening from the standpoint of what you are saying as we
4 proceed.

5 MR. HOLLIES: Okay, well, the discussion that we
6 had over the lunch hour may well have served to reduce my
7 cross-examination on that exhibit by a couple of hours.

8 COMMISSIONER HALEY: Well, that's good for sure.

9 MR. HOLLIES: We were confident that everybody was
10 hoping for the same outcome on those discussions.

11 COMMISSIONER HALEY: Okay.

12 MR. HOLLIES: I think that the -- that I can ask a
13 few well pointed questions and move on and that will
14 suffice.

15 COMMISSIONER HALEY: Very good. Then will you
16 proceed? Begin, please.

17 CROSS EXAMINATION

18 BY MR. HOLLIES:

19 Q Good afternoon, Mr. Callow.

20 A Good afternoon.

21 Q Could you please refer to USPS-OCA-T300-24.

22 A I have it.

23 Q Okay.

24 You state in there that you had set Post Office
25 box fees to reflect the potential cost savings ^{of} ~~and~~ delivery

1 to a Post Office box rather than to a business or residence
2 as suggested by Witness Sherman if appropriate data were
3 available; is that correct?

4 A Yes.

5 Q And what did you mean by "appropriate data"?

6 A The Appendix B costs are not in a useful form.
7 That is, the Appendix B provides cost on a per mail piece
8 basis.

9 Q Forgive me for a moment. Could you be so kind as
10 to identify in a larger scale what Appendix B you are
11 referring to?

12 A I'm sorry. The Appendix B of Witness ~~Patelonas~~ ^{Patelunas.}

13 Q So that would be the Appendix B of USPS-T5?

14 A Yes.

15 Q Thank you. Please proceed.

16 A What is needed is costs on a per box basis to
17 determine potential of cost savings.

18 Q And why are per box costs needed?

19 A In order to determine the savings to box -- to
20 boxes.

21 Q Is it your testimony that the attributable costs
22 of Post Office boxes are overstated?

23 A No.

24 Q How would you reflect any cost savings in your
25 calculations of attributable post office box costs?

1 A I did not address potential cost savings in my
2 consideration.

3 Q Well, I'm asking how you would, assuming the data
4 you think would be necessary were available?

5 A I didn't have the data, so I didn't give any
6 consideration to this issue.

7 Q But you did take a look at Appendix B to USPS-T-5?

8 A Yes. I know -- I've looked at that.

9 Q And you've arrived at a conclusion that does not
10 provide the data that is necessary?

11 A That's my understanding, also from reading Witness
12 Sherman's response to the Postal Service question T100-36.

13 Q Given that the current proposal involves 101
14 percent cost coverage, where would there be room for working
15 that into your model?

16 A I didn't consider this issue, so I can't answer
17 your question. I did not give any consideration to this
18 issue.

19 Q Let's assume, for a moment, that there is an
20 identifiable per piece cost savings associated with delivery
21 to a post office box as opposed to carrier delivery to a
22 business or residence. Why should the post office boxholder
23 receive the benefit of such a cost savings?

24 A This issue was addressed by Witness Sherman. I
25 did not consider it.

1 MR. HOLLIES: Well, that would seem to preclude
2 further questions on that particular point to this witness.

3 BY MR. HOLLIES:

4 Q Are you familiar with the testimony of Witnesses
5 Lyons at A-1 and A-2 and Ellard at page 70 of their
6 respective testimonies regarding the need to adjust raw
7 price sensitivity research results?

8 A Not in any specific sense, no. I'm aware they did
9 use adjusted numbers, they adjusted response rates.

10 Q Are you aware of why they used an adjusted
11 response?

12 A The belief is that the response rates of the
13 individuals overstate their negative reaction to a price
14 increase.

15 Q On that basis, Witness Lyons basically took a
16 midpoint between Witness Ellard's research results and a
17 countervailing assumption of there being no price
18 sensitivity, did he not?

19 A Yes, he took a midpoint.

20 Q Do you consider their positions to be
21 unreasonable?

22 A Not unreasonable, but why -- the midpoint -- the
23 question -- it's not clear to me why a midpoint was chosen
24 as opposed to some other percent.

25 Q Okay, I can understand that qualm, but do you

1 understand the reasoning behind their understanding that
2 some adjustment was necessary, putting aside for a moment
3 the specific quantity of that adjustment?

4 A As I stated, the response rate overstates the
5 objection of boxholders to price increase.

6 Q So what they did was reasonable?

7 A Adjusting upward ^{by}~~but~~ 50 percent or the midpoint,
8 as I said, it's not clear why a midpoint was chosen as
9 opposed to some other percent.

10 Q Okay, but the logic underlying --

11 COMMISSIONER HALEY: Excuse me. Mr. Callow, I'm
12 going to ask you if you'd keep your voice up just a little
13 bit so we can hear. I'm not hearing all of your statement.

14 THE WITNESS: All right. I'll move this closer.
15 Thank you.

16 COMMISSIONER HALEY: Thank you.

17 BY MR. HOLLIES:

18 Q You understand the logic of their position, right?

19 A Yes.

20 Q Maybe you don't necessarily see why the midpoint
21 was chosen as opposed to say a one-third or a two-third
22 point, but the direction of the adjustment they made is
23 something you think was reasonable?

24 A I understand why they did it, yes.

25 Q Are you aware that in 1988, the Postal Service

1 increased box fees by 34 percent with no resultant decline
2 in box usage?

3 A No.

4 Q Would that surprise you?

5 A I don't know. I didn't look at it.

6 Q Well, are you aware that Witness Lyons testified
7 -- this is L-y-o-n-s -- testified that part of the reason he
8 made an adjustment was that the lack of any decline in box
9 usage in the face of box fee increases in the past? You're
10 looking a little confused.

11 Witness Lyons testified about this. Are you aware
12 of that?

13 A I recall -- I don't have it in front of me, but I
14 recall him testifying along that line.

15 Q Witness Ellard's market research survey surveyed
16 what population of customers?

17 A Only those who have boxes.

18 Q Would you agree that if box fees were reduced, the
19 Post Office would be trying to attract a new group of
20 customers? That is, ones who do not currently have box
21 service?

22 A Yes.

23 Q How would such new customers, as a group, differ
24 from the existing ones?

25 A They might be people on waiting lists. If prices

1 were reduced sufficiently, they might decide not to wait to
2 be on a waiting list at a particular station and instead go
3 to another Post Office.

4 Q Is there any reason to think that new customers
5 would come from waiting lists?

6 A It's possible.

7 Q It's certainly possible. Would there be other
8 sources of new customers?

9 A There would be.

10 Q Let's exclude for a moment from the discussion any
11 consideration of customers on waiting lists and look at new
12 customers who would come from other than waiting list
13 locations. Would the fact that one group, that is, the ones
14 who are not currently box customers, has indicated
15 interest -- excuse me. Withdraw that.

16 Let's compare the two groups, existing boxholders
17 versus the ones that might be attracted by a fee increase to
18 initiate box service for the first time.

19 A By a fee decrease?

20 Q By a fee decrease.

21 Do you think there would be any basis to expect a
22 different behavior from new customers as opposed to existing
23 customers based on the fact that existing customers have
24 already expressed an interest in box service whereas new
25 ones have not?

1 A We don't know. There was no -- there was no
2 survey of those people so we have no knowledge of whether
3 they would be different or not.

4 Q I agree, we don't have a survey on this. That's
5 where we're headed on this cross-examination exhibit. What
6 I am trying to ask you about is whether there is a reason to
7 expect an a priori difference between box customers and
8 their reactions to fee increases as opposed to box customers
9 who might be attracted to ^{initiating}~~initiate~~ service for the first
10 time because of fee decreases.

11 MS. DREIFUSS: Commissioner Haley, I think this is
12 going far beyond Witness Callow's testimony. As I
13 understand it, he simply used the elasticity figures that
14 the Postal Service used; he didn't make any survey of
15 potential box customers. So that we are really wasting a
16 lot of time here asking about where potential box customers
17 might come from.

18 COMMISSIONER HALEY: It does appear to be a little
19 far afield, counsel. I would ask you to try to be a little
20 bit more direct.

21 I am aware of your comment but let's see if we
22 can't --

23 MR. HOLLIES: The point here is that the two
24 groups of customers, that is ones who currently have box
25 service and those who do not, might have quite different

1 feelings. There would be good reason to expect them not to
2 be the same about their interest in box service.

3 THE WITNESS: But we have no knowledge of that.

4 MR. HOLLIES: Well, I am making a logical question
5 to you. We do not have empirical data, that's correct.

6 MS. DREIFUSS: Excuse me. Commissioner Haley, I
7 think counsel just testified that there is reason to believe
8 that those who are not yet boxholders would have different
9 feelings than those who are and I have no idea where counsel
10 got that information. Is it somewhere in the record?

11 COMMISSIONER HALEY: Well --

12 MR. HOLLIES: I don't think it is appropriate to
13 answer questions from counsel at this point.

14 MS. DREIFUSS: In that case, I object to the
15 question, Commissioner Haley.

16 COMMISSIONER HALEY: Well, at this point, I will
17 overrule your objection and listen to counsel once again on
18 a question. I appreciate what you are saying.

19 I will overrule it and you may proceed.

20 BY MR. HOLLIES:

21 Q My question stands, Mr. Callow.

22 A I'm sorry, could you repeat it? There was
23 intervening discussion.

24 Q I'll give it a shot.

25 COMMISSIONER HALEY: I hope you understand what it

1 is.

2 MR. HOLLIES: I hear the implicit threats.

3 BY MR. HOLLIES:

4 Q My point is, is there some reason to think that
5 there might be differences between two groups of customers,
6 one group existing boxholders, another group those who might
7 be attracted to box service, thinking about initiating it in
8 the future?

9 And what I am asking you to consider is just by
10 the fact that boxholders have indicated interest in box
11 service by having obtained box service, they are more likely
12 interested in box service than customers who have never
13 obtained box service.

14 A It's an assumption you can make.

15 Q And does it seem reasonable to you?

16 A I don't know. I would like to see it tested.

17 Q But you would concede at least that, at least as
18 measured by their past behaviors, they have expressed a
19 preference?

20 A Current boxholders have, yes.

21 Q Would you also agree that an existing customer
22 faced with a fee increase has a different decision to make
23 than a customer considering initiation of box service in the
24 face of a fee decrease?

25 A Could you be more explicit?

1 Q Would you agree that there are two different
2 decisions to be made and they are not the same decision?
3 Decision one being that of an existing customer to maintain
4 box service in the face of a fee increase and the second
5 group or the second customer being one considering
6 initiation of box service for the first time in the face of
7 a fee decrease?

8 A They start at a different place, yes.

9 Q How did you derive your acceptance rate for
10 projected new customers in the face of box fee increases
11 --excuse me, decreases?

12 A I used the acceptance rate that was provided by
13 Witness Lyons. It was the adjusted acceptance rate.

14 Q Did you use the very same value?

15 THE REPORTER: Adjusted acceptance rate?

16 THE WITNESS: Adjusted acceptance rate, yes.

17 COMMISSIONER HALEY: Again, Mr. Callow, please
18 speak so that the reporter and I, we, can hear you. Thank
19 you.

20 THE WITNESS: Okay.

21 BY MR. HOLLIES:

22 Q Was it a mathematical equivalent?

23 A I believe it was, yes.

24 Q So, if, for example, just to throw out a
25 hypothetical, 10 percent of box customers could be expected

1 to cease box service in the face of a fee decrease, how
2 would you apply that 10 percent to new customers?

3 A The same -- I used the same elasticity to reflect
4 new customers that come on as a result of a decrease.

5 Q So you would then assume that 10 percent of the
6 current group who are not customers would take on box
7 service in the face of a fee decrease?

8 A I'm sorry, repeat that again.

9 Q If the acceptance rate was 90 percent so that 90
10 percent of customers faced with a fee increase would
11 continue to obtain box service, how would you plug that 90
12 percent or its reciprocal into the population of
13 nonboxholders to project a number who would take on box
14 service?

15 A Well, I used the same elasticity to reflect that
16 ~~as~~ where fees are decreased that you would have an increase
17 in volume using the same elasticity.

18 Q And yet you conceded a few minutes ago that the
19 population of existing box customers has some ~~market~~ *marked*
20 differences from the population of noncurrent box customers,
21 correct?

22 A I don't recall --

23 MS. DREIFUSS: Commissioner Haley, I object to
24 that question. I don't think he did concede that.

25 COMMISSIONER HALEY: Well, if he didn't concede

1 it, perhaps he can answer it.

2 THE WITNESS: I don't recall saying that. I said
3 --

4 BY MR. HOLLIES:

5 Q You said?

6 A I said I don't recall saying that.

7 Q Well, did you say the converse, that is that
8 existing box customers are the same as customers who are not
9 currently box customers?

10 A No. I think what I said is I'd like to see that
11 tested.

12 Q Did you not agree that the two could at least be
13 differentiated with respect to the fact that they have or
14 have not made past choices to obtain box service?

15 A Yes, they start at different places.

16 Q They start at different places. So they're
17 different in that respect?

18 A Yes.

19 Q And yet you assume that the same elasticity
20 applies to the two different groups, is that correct?

21 A Yes. The data, we had only the data on the record
22 and we assumed that when you reduce fees that you would get
23 an increase in volume. We went with the data we had.

24 Q I recognize that you had to use what was available
25 and you used the best candidate that you could find, is that

1 correct?

2 A That's correct.

3 Q Was it a perfect proxy?

4 A It was the only data that we had. I don't know
5 what to compare it to.

6 Q Let's look, for a moment, at the percentage
7 changes in box fees faced respectively by existing as
8 opposed to any new box customers. Wasn't the price increase
9 studied for Group 1C customers about 25 percent?

10 A Where are you referring?

11 Q I don't have the specific site for that. I can
12 dig it out.

13 A Are you looking in my testimony or --

14 Q Not yet. What is the price decrease under your
15 proposal faced by -- what is the percent decrease for Box 1C
16 fees -- Group 1C box fees?

17 A Twenty percent, 26, 27, 17 and 6.

18 Q And is there an overall average?

19 A There is: 22.5 percent.

20 Q Is it reasonable to use the same acceptance rates
21 between the two groups when there is an empirical reason to
22 believe they are different?

23 A We used -- I used the only data I had and that was
24 the acceptance rates that were on the record by Witness
25 Lyons.

1 Q Yes, and those acceptance rates were for existing
2 customers faced with a fee increase, right?

3 A That's correct.

4 Q And you have applied it to a group that is quite
5 different, that are not customers and when it is a fee
6 decrease, correct?

7 A We made a different assumption, made another
8 assumption. It would be wrong to assume that volume would
9 not change as a result of reducing fees.

10 Q And why would that be wrong?

11 A To assume that reducing fees produces no change in
12 volume.

13 Q That would be counter intuitive; is that right?

14 A That would be counter intuitive.

15 Q Okay.

16 A Given that we had no other data, we used what
17 information was on the record and we assumed that box
18 volumes would increase with a decrease in price and we used
19 the elasticity to show what that change would be.

20 That allowed us to show what the change in volume
21 would be.

22 Q Okay, so, assuming that no new customers would
23 arrive -- would arise in the face of a fee decrease is an
24 overly negative assumption in the sense that, as a matter of
25 intuition, you would expect some increase, assuming there is

1 any price sensitivity at all in the noncustomer group.

2 A Yes, you would expect some response, yes.

3 Q Okay. The assumption that you actually used,
4 however, was based on and derived from a survey of existing
5 box customers.

6 A Correct.

7 Q And we can agree that, at least as measured by
8 their past behavior, existing box customers are more
9 interested in box service than those who are not existing
10 box customers.

11 A They have box service.

12 Q Right, so there is an empirical reason to believe
13 that the customers you are projecting will be added to the
14 pool in the face of a fee decrease will not be as large a
15 number as would be measured by the sensitivity derived from
16 a survey of existing customers.

17 A We don't know that. The information we have is
18 the information that is on the record. Yes, only current
19 boxholders were surveyed. Given that that was the only
20 information that we had to work with, we made another
21 assumption and used the elasticities that we had rather than
22 make something up.

23 Q Okay, I'm not trying to suggest that there is any
24 empirical data here that suggests that you should have used
25 a different proxy, per se. What I am suggesting is that

1 there is an a priori reason to expect the two groups to be
2 different with respect to their interest in box service.
3 And the assumption that you have chosen, while convenient,
4 ultimately tends to overstate the number of box customers
5 who will arise because of the a priori distinction between
6 the two groups; isn't that correct?

7 A Again, this -- the data was not there and if you
8 want to -- we didn't have anything else and we used the
9 information we had about the response of boxholders.

10 Q Okay, that's fine.

11 MR. HOLLIES: I have what has been marked as USPS
12 Cross-examination Exhibit XE-3, which I am handing to you.

13 [Exhibit No. USPS-XE-3 was marked
14 for identification.]

15 THE WITNESS: Thanks, that looks familiar.

16 COMMISSIONER HALEY: May we have another one up
17 here?

18 Thank you.

19 MR. HOLLIES: I would note just for the record
20 here that this originally was printed out saying USPS Cross-
21 examination Exhibit XE-1. That "1" at least in theory here
22 has been crossed out in favor of a "3" in view of the fact
23 that we have had two previous cross-examination exhibits
24 today.

25 MS. DREIFUSS: Commissioner Haley, OCA continues

1 to object to questions based on this cross-examination
2 exhibit. I am not clear on where we stand with respect to
3 that objection.

4 I believe you sustained our objection at the
5 beginning and would that mean that the Postal Service may
6 not proceed with questions on this?

7 COMMISSIONER HALEY: In a general manner, we did
8 sustain the objection. We were permitting him to have broad
9 questions but I am concerned that counsel perhaps is going a
10 little bit far in this fashion.

11 We are trying to be --

12 MR. HOLLIES: I believe most of the work has been
13 done here and a few questions may zip this up.

14 COMMISSIONER HALEY: I hope so. My position and
15 the Commission's position, as you know, is to try to be as
16 fair minded in the record, perhaps getting so much more than
17 we absolutely need sometimes, but here we will ask you to
18 proceed and I will permit him to ask a few more questions.

19 Go ahead.

20 MS. DREIFUSS: Well, I am wondering whether there
21 is any point in proceeding since counsel has even conceded
22 that this is -- this establishes an overly pessimistic
23 assumption and even an unrealistic assumption as we argued
24 in our written objection.

25 COMMISSIONER HALEY: I understand. I understand

1 what you are saying but I am going to permit him to ask a
2 few more questions at this point.

3 BY MR. HOLLIES:

4 Q Mr. Callow, have you had an opportunity to review
5 this document?

6 A I have.

7 Q And do you recognize at least the numbers in all
8 but the right-hand column as arising from your own work?

9 A Yes.

10 Q Assume for a moment that your measurements -- your
11 use of the acceptance rate from the price sensitivity
12 research overstates the degree to which new customers will
13 begin box service, okay? Assume that that is too high.

14 Let's further assume, as we discussed earlier,
15 that an assumption that there would be no new customers is
16 too low. Okay?

17 What this exhibit does is it defines the range of
18 cost coverages inherent in the OCA proposal. One bound of
19 the range is based on your assumption that new boxholders
20 are as interested in box service as existing boxholders are.
21 The lower bound is established by the assumption that they
22 are not equally interested, indeed that they are not
23 interested at all.

24 Can you confirm that this exhibit, using your
25 spreadsheet, derives the lower bound range of the cost

1 coverage on the OCA proposal?

2 MS. DREIFUSS: Commissioner Haley, OCA objects to
3 the definition of this cross-examination exhibit as the
4 lower bound. Witness Callow earlier said that that
5 assumption that Postal Service counsel was making would have
6 to be tested. We do not make that concession that this is
7 the lower bound. Indeed, I -- well, I won't go further.

8 COMMISSIONER HALEY: Right.

9 MR. HOLLIES: That's not a proper objection.

10 I have asked him to assume that it is a lower
11 bound and he has assumed it. This is a hypothetical
12 question, it is perfectly appropriate.

13 MS. DREIFUSS: I thought you had asked him to
14 confirm that this was the lower bound. He cannot confirm
15 it; he will accept it as an assumption if you like.

16 MR. HOLLIES: Are you with us, Mr. Callow?

17 THE WITNESS: I am.

18 COMMISSIONER HALEY: Are we together now on the
19 assumption? All right? Okay, if you --

20 MR. HOLLIES: This exhibit is based on
21 assumptions.

22 COMMISSIONER HALEY: All right.

23 BY MR. HOLLIES:

24 Q Would you agree with that?

25 A Yes.

1 Q And would you agree that it is based on two
2 countervailing assumptions, the one about the acceptance
3 rate being the same as for existing boxholders and the other
4 being about -- being that the acceptance rate is zero?

5 A This one is based on acceptance rate being zero.

6 Q And what cost coverage does it show?

7 A Ninety-five.

8 Q And what cost coverage did you generate in your
9 model?

10 A 101. This is based on an assumption that defies
11 common understanding of the relationship of prices and
12 volumes.

13 Q I understand that it constitutes an assumption
14 that is very likely not true, much as the assumption that
15 you made is very likely not true.

16 A I would disagree with that latter phrase.

17 Q I can understand that and we can save that for
18 brief; that is not something that we need to get into --

19 COMMISSIONER HALEY: All right, gentlemen.
20 Proceed, if you will.

21 MR. HOLLIES: With that, I move Cross-examination
22 Exhibit XE-1 into evidence.

23 COMMISSIONER HALEY: One is already in evidence.

24 MR. HOLLIES: Good point. I'm sorry. May I
25 correct that and say Cross-examination Exhibit Number 3 into

1 evidence.

2 COMMISSIONER HALEY: You have raised your
3 objection.

4 MS. DREIFUSS: Yes. I am not sure where I stand
5 with my objection.

6 I would object to having this admitted into
7 evidence. It is certainly contrary to the OCA's position
8 and contrary to traditional economic principles. I see no
9 point at all in receiving this into evidence.

10 I don't have an objection to it being identified
11 as the Postal Service's cross-examination exhibit and
12 included in the transcript today but I do object to its
13 being admitted into evidence. I think it properly belongs
14 in the testimony of a Postal Service rebuttal witness at a
15 later time.

16 COMMISSIONER HALEY: I appreciate counsel on both
17 hands but, for whatever it's worth, we will admit it into
18 evidence.

19 [Exhibit No. USPS-XE-3 was received
20 into evidence and transcribed into
21 the record.]

22

23

24

25

USPS Cross Examination Exhibit

XE-1, November 17, 1996

POST OFFICE BOX SERVICE

OCA PROPOSAL WITH NO NEW BOXHOLDERS

POST OFFICE BOXES		TYAR No. of Boxes	OCA Proposed Box Fees	TYAR Annual Revenues	TYAR Annual Costs
Delivery Group	Box Size	[1]	[2]	[3]=[1]*[2]	[4]
IA	1	35,409	\$48.00	\$1,699,632	\$1,605,555
	2	2,236	\$66.00	\$147,576	\$144,553
	3	1,239	\$122.00	\$151,158	\$151,856
	4	129	\$210.00	\$27,090	\$30,753
	5	35	\$410.00	\$14,146	\$16,220
	ALL	39,048	\$52.23	\$2,039,602	\$1,948,937
IB	1	63,586	\$44.00	\$2,797,784	\$2,587,181
	2	14,735	\$60.00	\$884,100	\$849,700
	3	5,385	\$110.00	\$592,350	\$584,800
	4	843	\$190.00	\$160,170	\$177,420
	5	838	\$358.00	\$300,047	\$347,190
	ALL	85,387	\$55.45	\$4,734,451	\$4,546,291
IC	1	4,558,877	\$32.00	\$145,884,064	\$133,649,224
	2	1,928,614	\$43.00	\$82,930,402	\$78,317,078
	3	641,776	\$76.00	\$48,774,976	\$47,801,437
	4	137,917	\$142.00	\$19,584,214	\$19,616,383
	5	29,183	\$272.00	\$7,937,776	\$8,105,101
	ALL	7,296,367	\$41.82	\$305,111,432	\$287,489,223
II	1	4,704,526	\$16.00	\$75,272,419	\$127,376,803
	2	1,784,534	\$26.00	\$46,397,876	\$66,488,093
	3	453,368	\$48.00	\$21,761,654	\$30,692,017
	4	37,798	\$70.00	\$2,645,862	\$4,858,911
	5	4,215	\$110.00	\$463,675	\$1,054,871
	ALL	6,984,441	\$20.98	\$146,541,486	\$230,470,695
III	1 to 5	2,707,964	\$0	\$0	
TOTAL		17,113,207		\$458,426,972	\$524,455,147
CS		101,660		\$34,463,703	
RESERVED		178,717		\$5,361,510	
GRAND TOTAL		17,393,584		\$498,252,184	\$524,455,147

COST COVERAGE Grand Total [3] / [4]

95.0%

NOTES:

- [1] For Group I: Column [1], page 3, OCA-LR-3 (Re-revised, November 5, 1996)
For Groups II and III: Column [2], page 3, OCA-LR-3 (Re-revised, November 5, 1996)
- [2] Column 5, page 3, OCA-LR-3 (Re-revised, November 5, 1996)
- [3] [1]*[2]
- [4] Column [9], page 3, OCA-LR-3 (Re-revised, November 5, 1996),
as recalculated after the changes to column [1].

1 COMMISSIONER HALEY: Very well, Mr. Hollies,
2 proceed.

3 BY MR. HOLLIES:

4 Q Please turn to your testimony at page 26, lines 18
5 to 19. That is where you assert the low value of box
6 service.

7 A Yes.

8 COMMISSIONER HALEY: I'm sorry, I missed that.

9 THE WITNESS: Yes.

10 COMMISSIONER HALEY: What -- where are you?

11 MR. HOLLIES: I was characterizing his -- oh, page
12 26, lines 18 to 19.

13 COMMISSIONER HALEY: Thank you.

14 BY MR. HOLLIES:

15 Q Boxholders obtain post office box service near
16 their workplaces in order to access their incoming mail
17 sooner than they would be able to do if they had to wait
18 until they got home, isn't that correct?

19 A Yes.

20 Q Does this attribute of box service improve the
21 value of box service in those customers' estimation?

22 A It's possible.

23 Q Why would you think that might not be possible?
24 Isn't it likely?

25 A It's possible. That's my answer.

1 Q Okay. I've got a series of these. Post office
2 box service also provides anonymity for those personal
3 boxholders who do not wish to disclose their physical
4 addresses, isn't that correct?

5 A Yes.

6 Q Would this attribute of box service likely improve
7 the value of box service in those customers' estimation?

8 A The features you're talking about are offset
9 somewhat by other features of box service such as not having
10 access 24 hours a day, for example.

11 Q That may be, but that's not my question. We'll
12 get to something close to that in a few minutes. The
13 question was pretty narrow on point.

14 This one attribute of box service, wouldn't that
15 improve the value of box service in those customers' eyes?

16 A It could.

17 Q The availability of earlier delivery is important
18 to businesses who want to turn around transactions such as
19 the depositing of remittances on the same day, correct?

20 MS. DREIFUSS: Commissioner Haley, I don't think
21 Counsel has established that there is earlier delivery
22 through box service. Could he cite us to a portion of the
23 record where it is so stated?

24 COMMISSIONER HALEY: Well, I appreciate that -- I
25 think that he could answer that question. If he doesn't

1 know, he can say I don't know.

2 THE WITNESS: Could you repeat the question,
3 please?

4 BY MR. HOLLIES:

5 Q Is early delivery important to businesses who want
6 to obtain their mail and turn transactions around that day?

7 A It could be.

8 Q And if we assume, for a moment, that was an
9 attribute of box service, would that improve the value of
10 box service in those customers' eyes?

11 A Yes.

12 Q What other reasons may lie behind customers'
13 choice to receive delivery via a post office box?

14 A Well, I've talked about privacy and security and
15 like the other attributes that you mentioned, those are
16 offset by other features of the box service that tend to
17 pull the value down.

18 Q Well, given that you seem to want to go that way,
19 exactly what ~~data~~^{data} are you relying on to reach your
20 conclusion on the relative weights of those factors?

21 A Witness Lion indicates that 42 percent of post
22 offices do not have 24-hour access to their sections.

23 Q And somehow that weighs into your calculus about
24 how these factors compare the relative weights, how they
25 compare to one another?

1 A It's a tradeoff that boxholders must make, yes.

2 Q So my question comes back, what quantified data
3 are you relying on in making this judgment?

4 A Witness Lions.

5 Q His data consists of a simple report on the number
6 -- excuse me, on the percentage of facilities offering 24-
7 hour box service?

8 A Well, we also have information from Witness
9 Carlson about other problems or other situations at post
10 offices.

11 Q Is this quantified information?

12 A It is not; it is from an existing boxholder which
13 was not surveyed by the Postal Service.

14 Q Could it perhaps be safely characterized as
15 qualitative information?

16 A It's from one existing boxholder, that's correct.

17 Q So it is qualitative information?

18 A It is.

19 Q Looking, for a moment, at page 30 of your
20 testimony, lines 5 through 8, this is the conclusion of your
21 testimony.

22 A Yes.

23 Q You indicate that the Postal Service has failed to
24 demonstrate a nationwide shortage of boxes?

25 A Correct.

1 Q Certainly a nationwide shortage of boxes is
2 something that may warrant attention, but why is this
3 something the Postal Service is required to prove?

4 MS. DREIFUSS: Commissioner Haley, I think that
5 calls for a legal conclusion on the part of the witness and
6 I don't think he should answer that question, so I object to
7 it.

8 MR. HOLLIES: The statement in the testimony makes
9 an assertion that is quite plain. He's criticizing the
10 Postal Service for not doing something and I'm trying to ask
11 him why. That's not exactly a legal conclusion.

12 MS. DREIFUSS: Commissioner Haley, it may be on
13 the advice of Counsel that he is making the assertion and I
14 believe that's a matter that needs to be argued on brief,
15 whether it's a requirement or not. It's not anything the
16 witness can testify to.

17 COMMISSIONER HALEY: I'll sustain your objection.
18 Proceed, Counsel.

19 BY MR. HOLLIES:

20 Q All right, let's assume for a moment the Postal
21 Service is required to prove it, as implicit in your
22 statement.

23 How much of a shortage needs to be proven?

24 MS. DREIFUSS: Again, Commissioner Haley, that
25 would also be a matter for legal argument.

1 COMMISSIONER HALEY: He has at least made a hypo
2 at this time, I think, an assumption, and I am permitting
3 him to answer if the witness will.

4 THE WITNESS: My response would be that 95 percent
5 does not seem to be -- does not seem to constitute a
6 nationwide shortage of boxes.

7 BY MR. HOLLIES:

8 Q Excuse me. Ninety-five percent of what?

9 A Ninety-five percent of post offices do not have
10 box shortages or a box availability problem.

11 Q That is certainly one number that has been put
12 into play. We'll get back to that.

13 Okay. Moving on to ^{T300-19,} ~~T-319,~~ that is USPS/OCA-T300-
14 19 --

15 A Okay, I have it.

16 Q There you state that "Considerations of the value
17 of box service relative to carrier service and other postal
18 services are more appropriate for an omnibus rate case."

19 Is that a correct statement?

20 A Correct.

21 Q Okay. Now please compare this with your testimony
22 at the bottom of page 6 and the top of page 27 in which you
23 address the value of box service.

24 How do you address the value of box service when
25 it is more appropriately left for an omnibus rates case?

1 A What I said in Interrogatory Response 19 is that I
2 designed box fees in order -- so that the cost coverage
3 resulting from the proposed fees is virtually the same as
4 that recommended by the Commission.

5 I have effectively adopted the Commission's value
6 of service determination but then I went on to indicate
7 that, you know, I don't believe that the box service is of
8 less value than carrier delivery and the question of
9 considerations of value of box service rather than carrier
10 service -- my understanding from witness Sherman is that an
11 omnibus rate case would permit the comparison of mail
12 classes and services and the adjustment of cost coverage
13 based upon those comparisons.

14 Q I am not sure I quite heard the answer there --

15 A Okay.

16 Q -- but I'll look back through the transcript and
17 see what I can find on that one.

18 Moving forward to page 12, lines 13 to 14 of your
19 testimony, in which you state that -- this is the 95 percent
20 figure -- "Ninety-five percent of all offices have boxes
21 available."

22 First of all, is that an accurate quote?

23 A Correct.

24 Q Putting aside for a moment the difference of
25 opinion you evidently have with Postal Service witness Lion

1 whether availability is best gauged at the box size as
2 opposed to the office level, I want to go into for a moment
3 what constitutes available.

4 A Okay.

5 Q Is a box that is not in use because it has been
6 pinned for nonpayment of box fee available?

7 A I don't know. The situations I am aware of were
8 the ones that witness Lion said all boxes are rented and the
9 other is there are no boxes installed so they are ^{not} installed,
10 so therefore it cannot be available for rent.

11 I am not aware of other situations in Postal
12 Service operations that would preclude a box from being
13 available.

14 Q Well, you and I took tours of several facilities
15 in the context of this case and there was some discussion
16 during those tours of the process of pinning a box.

17 Are you familiar with that?

18 A I don't recall that, no.

19 I am aware of boxes not being available because
20 they are rented and boxes not being available because they
21 are not installed.

22 We did go out to I believe it was Lincoln and they
23 had only Size 1 boxes installed. They had no other box
24 sizes installed, therefore those boxes, Size 2 through 5,
25 would not be available and in fact Size 1 was not available

1 at Lincoln because those were all rented.

2 Q If a box is installed in a facility whose
3 condition has rendered it inoperable, perhaps under a
4 different section of the statute its operation has been
5 suspended, is that box available?

6 A You are getting into postal operations that I am
7 not familiar with.

8 As I indicated, the two situations that I am
9 familiar with are where they are not rented and they are not
10 available because -- they are rented, excuse me, and
11 therefore they are not available or they are not installed
12 and therefore there can't be any available.

13 Q Okay, so I take it then that you would provide
14 functionally the same answer if I asked you about the
15 availability of a box for which the key had not been
16 returned, is that correct?

17 A Yes.

18 Q Or that a box was out of repair even though the
19 building was functional so that it was not in operating
20 condition? Again, you would be providing the same answer?

21 A Yes.

22 Q Okay. Would you be willing to accept that keeping
23 all installed boxes in use all the time can be a difficult
24 goal to reach?

25 A You mean from the postal operation --

1 Q Yes, in view of the questions I have just been
2 raising.

3 A I have no knowledge of what it takes to run a box
4 section.

5 Q All right. Well, let's turn for a moment to
6 turnover. It's reasonable to expect that boxholders will
7 come and go over time, so there will be some turnover in
8 boxes?

9 A Yes.

10 Q And that during some interim between boxes, a box
11 may actually be installed and in some sense available but
12 not in use?

13 A I'm not certain where you're headed, but --

14 Q That's okay.

15 A -- I don't quite understand -- again, you're
16 getting into Postal operations. I mean, I don't know
17 whether the Postal Service considers a week between renting
18 boxes full up. I guess what I'm saying is if all boxes were
19 rented and a customer left and the Postal Service then
20 rented a box a week later, would that be considered a full
21 box?

22 Q I think my point here is that because of a variety
23 of factors associated not only with the unique attributes of
24 boxes, but the fact that they are something that experiences
25 turnover in boxholders, that it's as a practical matter

1 impossible or close to impossible to keep all of them in use
2 all of the time.

3 A That's not something I would know, but --

4 Q But it's something that you can ^{reasonably} ~~reasonable~~ agree
5 with, right? You can agree that it makes sense that it
6 might be hard to get to 100 percent all the time.

7 A I don't know that. I don't --

8 Q Okay.

9 A I've never run a box section.

10 Q All right. Let's take housing stock for a second.
11 Is it safe to say that there's some turnover in housing
12 stock in terms of who's occupying that stock?

13 MS. DREIFUSS: Excuse me. Commissioner Haley,
14 could counsel explain -- I'm not objecting -- could you
15 explain what you mean by housing stock?

16 MR. HOLLIES: Sure. Houses and apartments,
17 housing units.

18 MS. DREIFUSS: You're asking Witness Callow about
19 housing and apartments in this question?

20 MR. HOLLIES: I am analogizing from boxes which
21 have a question about actually using them all at the same
22 time, and he's having some difficulty understanding that, so
23 I'm trying a context that has a little more general
24 understanding of it in the world, and the fact of the matter
25 is that housing stock is never 100 percent occupied because

1 of these turnover problems, and I'm trying to get Mr. Callow
2 to recognize that boxes are kind of like housing stock and
3 some other things in the world in that they are not always
4 all filled up. As a practical matter, that just doesn't
5 happen.

6 MS. DREIFUSS: Okay. And may I just ask one more
7 clarification. You're assuming that housing stock turnover
8 is analogous to Post Office box turnover?

9 MR. HOLLIES: That's certainly an underpinning of
10 my -- where I'm headed.

11 MS. DREIFUSS: Thank you.

12 BY MR. HOLLIES:

13 Q Mr. Callow, you've heard me now explain where I
14 wanted to go. Are you prepared to concede or agree that at
15 least some of the time, some places, it will be difficult
16 for the Postal Service to actually keep all of the boxes
17 installed in a location in use all of the time?

18 A Well, I'm reluctant to do that for the reasons
19 I've given before. I'm not -- I don't have the kind of
20 familiarity you're asking of me with respect to running a
21 box section. And as I've indicated before, does a week gap
22 between an old renter and a new renter represent, you know,
23 a full up box section?

24 Q Is it safe to say that during that week, the box
25 is not in use?

1 A If that's what the Postmaster requires before it
2 rents, yes.

3 Q Would it surprise you if nearly one-third of Post
4 Offices nationwide had 90 or more percent of their installed
5 boxes in use?

6 A I don't know.

7 Q Would it surprise you if slightly more than one-
8 third of all boxes are located at facilities that have 90 or
9 more percent of their boxes in use?

10 A I have no information.

11 Q In the roll-out or implementation of any new box
12 fee schedule resulting from this docket, could or should the
13 Postal Service consider limiting the applicability of any
14 non-resident fee to those offices above a certain capacity
15 threshold?

16 A Maybe you can explain that a little more.

17 Q Well, I just asked you a couple of questions that
18 focused on a 90 percent level of boxes being in use, and I'm
19 following that up with asking an honest question, asking
20 your opinion about whether or not the Postal Service should
21 consider limiting the scope of the non-resident fee to those
22 offices that actually have a capacity problem as measured by
23 one of these capacity thresholds?

24 MS. DREIFUSS: Commissioner Haley, may I ask if
25 the Postal Service is now prepared to amend its request to

1 reflect application of the fee in that way?

2 MR. HOLLIES: And by what rule of law need we to
3 do that?

4 MS. DREIFUSS: Well, it seems that we --

5 MR. HOLLIES: This is a hypothetical question.

6 MS. DREIFUSS: -- we can come up --

7 COMMISSIONER HALEY: Just a minute. Just a
8 minute. Just a minute.

9 You may proceed now.

10 MS. DREIFUSS: Thank you.

11 I'm under the impression that the Commission is
12 going to have to decide the Postal Service's request that
13 was filed initially in this proceeding. It really seems to
14 be utterly pointless to talk about possible requests that
15 may have been filed at the beginning when they were not
16 filed, and I just think we're wasting a lot of time. We'll
17 get absolutely nothing of relevance or value in questions of
18 this sort.

19 COMMISSIONER HALEY: I'm sure the Commission will
20 figure that out, Ms. Dreifuss. I appreciate it.

21 But proceed now. What do you have to say about
22 that, Mr. Hollies?

23 MR. HOLLIES: Do you want me to respond to her or
24 to pose a question?

25 COMMISSIONER HALEY: You respond to her at this

1 point.

2 MR. HOLLIES: Well, the ^{Request}~~request~~ certainly is what
3 it is. As we've paraded continuously through this case,
4 however, the ^{Request}~~request~~ does not actually answer all questions
5 that must be answered in order to implement the results of
6 any recommended decision. We have been discussing this in
7 the context of implementation, what's going to happen on
8 implementation, and, of course, we've been discussing what's
9 going to happen -- how we would propose to implement the
10 non-resident fee. While the request does establish proposed
11 DMCS language which bounds the range of our permissible
12 behaviors in the implementation process, this is not a
13 question that touches on those areas that we are precluded
14 from considering.

15 COMMISSIONER HALEY: Okay.

16 MR. HOLLIES: And I'm asking for the witness'
17 opinion on whether he thinks this is an appropriate way to
18 go.

19 COMMISSIONER HALEY: Now, is that your question
20 that you have posed him now? What is your question?

21 MR. HOLLIES: Yes. That's the one I had just
22 posed twice.

23 Would you like it again?

24 THE WITNESS: I think I have an answer.

25 MR. HOLLIES: Okay.

1 THE WITNESS: I gave no consideration to
2 implementation in my testimony and I did not -- since I
3 rejected the non-resident fee, I certainly didn't spend any
4 time thinking about what should or should not be
5 implemented.

6 MR. HOLLIES: Thank you.

7 COMMISSIONER HALEY: Okay.

8 BY MR. HOLLIES:

9 Q In your responses to interrogatories USPS-OCA-
10 T300-1, which was followed up on by 32, you point out that
11 the Postal Service has not quantified costs associated with
12 the administrative burdens imposed by non-resident
13 boxholders. Is that a fair characterization? Would you
14 like a chance to review those?

15 A If you would allow me.

16 Yes.

17 Q So I take it you would prefer quantitative data
18 over qualitative data in order to ^{inform} ~~form~~ a decision on the
19 magnitude of these burdens?

20 A I would prefer attributable costs over no
21 attributable costs in order to determine whether -- where to
22 recommend to set a fee.

23 Q And would you characterize those costs as
24 qualitative or quantitative?

25 A Non-existent.

1 Q Assuming they were present, would you characterize
2 them as quantitative or qualitative?

3 A The costs that have been presented by the Postal
4 Service?

5 Q The hypothetical is that if there are attributable
6 costs available by which to quantify the administrative
7 burdens and if those -- if those costs are available, would
8 they be quantitative or qualitative in nature?

9 MS. DREIFUSS: Commissioner Haley, since this is a
10 hypothetical, I think counsel will have to explain how these
11 costs were measured and then OCA's witness will be able to
12 determine whether they're qualitative or quantitative.
13 Could you further hypothesize how the costs are measured?

14 MR. HOLLIES: Counsel is certainly free to ask her
15 own questions on redirect. That's not my question.

16 MS. DREIFUSS: Commissioner Haley, I don't know
17 how the witness can answer the question whether it's
18 qualitative or quantitative based on the way it was framed.
19 He would need further information.

20 COMMISSIONER HALEY: Well, I think the witness can
21 say that.

22 THE WITNESS: Could you repeat the question?

23 MR. HOLLIES: Okay.

24 BY MR. HOLLIES:

25 Q You indicated that you would prefer to see

1 attributable costs as a means for quantifying the
2 administrative burdens associated with non-resident
3 boxholders, correct?

4 A Correct.

5 Q My simple point here is that such -- those costs
6 are either quantitative in nature or qualitative in nature.
7 Inasmuch as you've experienced them in the past in other
8 cases and in other contexts -- attributable costs, that is -
9 - it seems like a fair question. Are those qualitative or
10 quantitative data?

11 A I guess I'm having trouble identifying which data
12 you're talking about since we don't have any; and I'm not
13 certain when you make your hypothetical which -- what is the
14 data you're referring to.

15 Q All right. Have you experienced attributable
16 costs in your work here at the Commission?

17 A We have attributable costs for Post Office boxes.

18 Q Okay. And what form do those costs take?

19 A They are quantitative.

20 Q Thank you. That's all I'm asking.

21 A Okay. I'm glad that was clarified.

22 Q It was a long road.

23 So it's safe to say that you would prefer
24 quantitative data --

25 A Yes.

1 Q -- if that's available?

2 A Yes.

3 Q In particular, you would prefer quantitative over
4 qualitative.

5 A Yes.

6 Q And perhaps the administrative burdens described
7 by the Postal Service in its case in chief, the
8 administrative burdens associated with non-resident
9 boxholders, while not quantitatively described, are actually
10 qualitatively described, correct?

11 A You have -- you've presented the testimony of
12 Witness Landwehr.

13 Q Right. So that was -- you're agreeing with me?

14 A Yes.

15 Q Thank you.

16 Please --

17 A Let me clarify.

18 Q Certainly.

19 A What I'm saying is you have put forward a witness
20 who has alleged that there are administrative burdens with -
21 - associated with providing non-resident box service. I'm
22 not agreeing with you that in making -- in -- the fact that
23 he has alleged that there are costs, that I'm agreeing those
24 costs exist.

25 Q That was the subject of several other

1 interrogatories, and I think the record is sufficiently
2 clear on that point.

3 A Okay.

4 Q We'll see if we need to get back to it.

5 If you would turn for a moment to your answer to
6 USPS-OCA-T300-19 where you address the value of box service,
7 specifically indicating that for boxholders worried about
8 theft of carrier-delivered mailbox service -- excuse me --
9 worried about theft of carrier-delivered mail, box service
10 is marginally more valuable than free delivery. Is that a
11 summary of what you say in the answer to 19?

12 A Yes.

13 Q And what quantitative data do you rely on in
14 reaching this conclusion?

15 A I don't. It's -- it's --

16 Q Okay. And what qualitative data do you rely upon
17 in reaching this conclusion?

18 A Basically I am relying on logic, that if you lose
19 valuable documents from mail, from your mailbox that's
20 carrier delivered, there is a great deal of aggravation and
21 expense in replacing those documents or restoring those
22 documents or setting credit records straight, et cetera, et
23 cetera.

24 Q And that aggravation, is it a qualitative or a
25 quantitative basis for making a decision?

1 A That would be qualitative.

2 Q So you would agree that while quantitative data
3 may be preferable for some purposes, qualitative data may
4 also be appropriately relied upon?

5 A This was an example of comparing box service and
6 carrier delivery. I still maintain that there's no cost
7 associated, no attributable cost associated with providing
8 box service to residents -- to nonresidents versus
9 residents.

10 Q Yes, you've returned to that point several times.
11 My point, however, is that both quantitative and qualitative
12 information can inform a decision, can it not?

13 MS. DREIFUSS: Commissioner Haley, I believe
14 that's a matter of legal argument. I don't think the
15 witness is qualified to answer that. On brief, the lawyers
16 will have to argue whether qualitative evidence is
17 sufficient for the Post Service to carry its burden of proof
18 in this case. The witness can't answer that question.

19 COMMISSIONER HALEY: Well, we've been over this I
20 think quite a lot. I think the witness could give his
21 opinion and perhaps this is the last one that I'll let you
22 answer -- I mean ask on that basis, but you may proceed on
23 this one.

24 THE WITNESS: Qualitative information is something
25 -- it is better to have the quantitative information and in

1 the absence of that, there is qualitative information that
2 is used.

3 MR. HOLLIES: Well, ^I I did have another loop on
4 this but in view of --

5 COMMISSIONER HALEY: I think we've been through
6 that quite a lot, Mr. Hollies.

7 MR. HOLLIES: We'll move on.

8 COMMISSIONER HALEY: Okay.

9 BY MR. HOLLIES:

10 Q Please refer to your answer to USPS/OCA T-300-2
11 wherein you refuse to agree that it is possible to base a
12 fee on evidence of ^{cost-}causing behavior that is not precise.

13 A It seems if you're going to take the step of
14 imposing a nonresident fee of \$36 a year, that you would
15 want quantitative information. That is a significant jump
16 -- that is a significant fee for boxholders and to do so in
17 the absence of quantitative information seems unfair.

18 Q I appreciate your sentiments on that. That's not
19 my immediate question, however. The question that is
20 T-300-2 asks you is it possible to justify a fee and you
21 say, no. You say no, notwithstanding our discussion of a
22 few minutes ago in which you concede that qualitative and
23 quantitative information can both inform a decision and
24 you've repeated again that quantitative information would be
25 preferred.

1 Why is it not possible, possible to base a
2 decision on qualitative information?

3 A My response would be that the Postal Service is
4 proposing a large fee increase on nonresident boxholders in
5 the absence of cost. It seems to me that taking that step
6 should involve knowing the costs that are or are not imposed
7 by nonresident boxholders.

8 Q I'm not trying to argue the relative merits of the
9 approaches. What I'm worried about here is that you're
10 saying that it's not even possible to rely just on the
11 qualitative.

12 MS. DREIFUSS: Commissioner Haley, when I look at
13 this interrogatory response, which is the basis for the
14 questions, I do not see -- I'm sorry, maybe I'm over looking
15 it but I don't see the word possible in the answer. Could
16 you show --

17 MR. HOLLIES: It's in the second line of the
18 question.

19 MS. DREIFUSS: In the second line of the question,
20 but those are not the witness' words and I don't think he
21 took a position on whether it's possible or not.

22 MR. HOLLIES: His answer is no. The question is,
23 is it possible? His answer is no. That's a pretty clear
24 position.

25 MS. DREIFUSS: Well, a little further down, he

1 really clarifies his position. He's simply saying the
2 nonresident fee should bear some relationship to cost. I
3 don't know that he'd agree -- I'm sorry, I'll withdraw the
4 objection. Maybe he will take a position on whether it's
5 possible or not.

6 I'll add that, again, I think we're treading on
7 the realm of legal argument. Whether it's possible or not
8 is really a legal question.

9 THE WITNESS: My response to the situation, my
10 response to this question was related to the nonresident
11 fee. You're asking me to generalize beyond this and I'm not
12 prepared to do that.

13 In the case of the nonresident fee, \$36 a year is
14 a significant jump in price for nonresident boxholders and
15 that you should have the cost for that and that's my
16 position here.

17 COMMISSIONER HALEY: I'd like to get some idea how
18 much longer are you -- are your questions now, sir,
19 Mr. Hollies?

20 I am not rushing, I would just like to have some
21 idea.

22 MR. HOLLIES: I appreciate that. It's a little
23 difficult to say but I would estimate I have gone through 70
24 percent of my material.

25 If you are looking to take a break, this might be

1 a fine time.

2 COMMISSIONER HALEY: I guess we should take a
3 break for 10 minutes, 10 after -- nine minutes.

4 MR. HOLLIES: That clock there looks like it says
5 three after at the moment. Shall we go until a quarter
6 after?

7 COMMISSIONER HALEY: Okay, 14 after --

8 [Laughter.]

9 COMMISSIONER HALEY: No, no, we'll say 15. Okay,
10 3:15.

11 [Recess.]

12 COMMISSIONER HALEY: Are we ready to be back on
13 the record now? Okay.

14 Why don't you proceed with your questioning, sir.

15 BY MR. HOLLIES:

16 Q Mr. Callow, looking at your answer to T300-2,
17 which I believe is where we left off?

18 A Yes.

19 Q Your answer there indicates that a fee should
20 relate to its costs, does it not?

21 A It should bear some relation to costs, correct.

22 Q Why can't that relationship be described by
23 qualitative data?

24 A My answer would be, in a situation where you want
25 to impose a large fee increase on boxholders, to take that

1 kind of step you would want quantitative information.

2 Q So it is not that we can't use qualitative, it is
3 just that we should use quantitative; is that correct?

4 A No, my position is you want quantitative
5 information.

6 Q You can only use quantitative and not qualitative?

7 A In this situation, yes, you are imposing a large
8 fee and if it is, indeed, \$36 worth of costs, then you
9 should be able to show some relationship to those costs. If
10 your fee is going to cover costs, then you should know what
11 those costs are.

12 Q Okay, assume that the Commission recommends and
13 the Postal Service ultimately adopts the nonresident fee at
14 the proposed \$36 per year level conditioned upon the
15 collection of appropriate quantified cost data and customer
16 counts for presentation in a future Commission proceeding.

17 Is the hypothetical clear enough?

18 A I understand.

19 Q Given your conclusion and response to USPS-OCA-
20 T300-1, that the actual costs caused by the greater
21 administrative burdens associated with nonresident
22 boxholders are insignificant, would you agree that this fee
23 would more than recover its costs?

24 A You are going to have to take that in pieces.

25 Q Okay, there are two pieces. One is the

1 hypothetical, the fact setting, which says that the \$36 fee
2 in fact goes in, is implemented. Okay?

3 A Okay.

4 Q In T300-1, you surmised that the actual costs
5 caused by the greater administrative burdens associated with
6 nonresident boxholders are, and I quote, "insignificant."
7 So it seems to the extent they have any specific value, it
8 is a pretty low quantifiable value, agreed?

9 A I think what I said here is that given that the
10 Postal Service did not see fit to quantify those costs, it
11 suggests that those costs are insignificant.

12 Q Okay, and do you have any reason to think they are
13 large?

14 A I have no costs at all.

15 Q But you do believe they are insignificant?

16 A I have suggested that they are insignificant by
17 virtue of the fact the Postal Service either did not or was
18 not able to quantify them.

19 Q Okay, so the question stands, would a \$36 fee
20 cover those costs?

21 A How can a fee cover costs if you don't know what
22 the costs are?

23 Q Well, we may not be able to pin it down with that
24 precision that some might prefer, that much we agree on.
25 But the fact of the matter is you are asserting that the

1 costs are probably insignificant and I am asking whether \$36
2 is greater than insignificant.

3 A I suggested that those costs are insignificant. I
4 don't know whether they are -- I don't know what those costs
5 are.

6 Q Okay, assume they are insignificant. And my
7 question stands.

8 A \$36 would be greater than insignificant.

9 Q Thank you.

10 And would that future Commission proceeding afford
11 an opportunity to tailor the amount of the fee more closely
12 to costs?

13 A If you collected the costs, you would be able to
14 tailor the fee to it.

15 Q So looking back to your answer to number two,
16 where you indicate that a fee should "relate to costs" -- or
17 is that -- I may have changed the form of the word.

18 A "Should bear some relation to costs."

19 Q Should bear some relationship to costs, if the fee
20 does bear some relationship to the costs in the sense that
21 it recovers them, we have a relationship, right?

22 A We don't know what the costs are. I merely
23 suggested that they were insignificant given that they were
24 not collected or the Postal Service did not know what they
25 are.

1 Q Right. So I said, fine, let's assume they are
2 insignificant as you've surmised.

3 A Okay.

4 Q And I am just trying to go back to the beginning
5 here, not the very beginning, mind you, but you have
6 suggested that there should be a relationship. I am
7 indicating, well, there is a relationship, it covers costs
8 based on the hypothetical I have given you. Maybe it is not
9 the perfect relationship one might want but it is a
10 relationship nonetheless.

11 A And you want to know whether --

12 COMMISSIONER LeBLANC: Mr. Hollies, I'm sorry,
13 you've lost me.

14 What is your question? I'm just trying to
15 understand what is it that you are doing there?

16 He said that he does not know the cost --

17 MR. HOLLIES: I'll move on.

18 COMMISSIONER LeBLANC: Thank you.

19 BY MR. HOLLIES:

20 Q In your response to Interrogatory USPA/OCA T300-
21 4, you repeat a statement made in your testimony that the
22 Postal Service or witness Needham has failed to demonstrate
23 that, quote, "forcing nonresident to move would not simply
24 shift box shortages to other post offices."

25 Is that a fair summary, a fair characterization of

1 that response?

2 A That's correct.

3 Q Okay. Aren't you the one who is asserting that
4 "forcing nonresidents to move would simply shift box
5 shortages to other offices"?

6 A No.

7 [Pause.]

8 BY MR. HOLLIES:

9 Q Looking at T300-4, the second sentence, does it
10 not say -- this is now your answer to the interrogatory --
11 "I said" -- internal quote -- 'I said what witness Needham
12 fails to demonstrate is that forcing nonresidents to move
13 would not simply shift box shortages to other post
14 offices'" --

15 A Yes.

16 Q So aren't you the one who is asserting that
17 forcing nonresidents to move would simply shift box
18 shortages?

19 A No. What I am suggesting is that there -- as my
20 answer indicates -- that there are three possibilities that
21 nonresidents face, one of which is that they may move, they
22 may still be a boxholder at another office.

23 Q Okay, let's back up a sec.

24 A Okay.

25 Q You are criticizing witness Needham for not having

1 addressed something, isn't that correct?

2 A Yes.

3 Q And by criticizing her for not doing something,
4 you are effectively saying she should have done something?

5 A Okay.

6 Q You are the one who is asserting -- this is not
7 something that witness Needham put into play, this is
8 something you are saying she should have done -- she should
9 have checked out whether forcing nonresidents to move would
10 simply shift box shortages to other offices, right?

11 A Correct.

12 Q What is your quantitative support for that?

13 A As my response indicated, I don't have any
14 evidence on this point. It's just a matter of logic.

15 Q Is that to say you have no qualitative support for
16 it either, or is "logical" qualitative?

17 A I have no quantitative information and it's just
18 logic. I don't see how qualitative enters into it.

19 Q Okay. I think you need to stay close to your
20 microphone.

21 A I don't see how qualitative information enters
22 into it. It's just a matter of logic.

23 Q Okay. Is there any evidence of any kind that
24 migration of boxholders from offices where they are
25 nonresidents to offices where they are residents will occur

1 at locations facing high demand?

2 A I'm sorry, could you repeat that question?

3 Q Is there any evidence of any kind that migration
4 of boxholders from offices where they are nonresidents to
5 offices where they are residents will occur in the direction
6 of locations facing high demand -- that is, that the place
7 where they are residents are also high demand location?

8 A I don't know.

9 Q Well, there isn't, okay?

10 Why should the Postal Service be required to prove
11 the absence of a positive correlation you assert?

12 A I basically amplified my statement with the
13 response and that is what I did here.

14 Q So, I take it you don't have a specific answer to
15 the question?

16 A I guess my response is my interrogatory response.

17 Q Do you rely upon any kind of precedent to support
18 your assertion?

19 A No, I --

20 MS. DREIFUSS: Commissioner Haley, is Counsel
21 referring to legal precedent? What kind of precedent would
22 he have in mind? Could he clarify that question, please?

23 MR. HOLLIES: The question has been asked and
24 answered.

25 MS. DREIFUSS: I didn't hear the answer and I

1 don't think it was answered fully. I believe I may have
2 interrupted the witness before he did fully answer it.

3 COMMISSIONER HALEY: All right.

4 MS. DREIFUSS: But again, I think the record would
5 certainly profit from an explanation of what kind^{of} precedent
6 would he have in mind, evidentiary, legal or what?

7 MR. HOLLIES: I did not limit my use of that term
8 and I understand, therefore, the answer was not also -- was
9 similarly unlimited.

10 MS. DREIFUSS: Well, since Counsel did not limit
11 his answer, I believe he should withdraw the question with
12 respect to whether there is legal precedent or not. That's
13 a matter for legal argumentation and not for this witness to
14 answer.

15 COMMISSIONER HALEY: We understand that this
16 witness, of course, is not answering from the standpoint of
17 the legal elements that are involved here. I think that we
18 might just proceed. I think there was an answer and we'll
19 proceed at this point.

20 BY MR. HOLLIES:

21 Q Even if migration from offices where customers are
22 nonresidents to offices where customers are residents
23 occurred at high demand locations, why wouldn't this simply
24 indicate the need for a nonresident fee at both offices?

25 A I don't know.

1 Q In your response to USPS/OCA T-300-5, you
2 characterized Witness Lion's statement that "38 percent of
3 post offices are at capacity in at least one box size as a
4 'gross exaggeration'." By the time you answer a followup to
5 that interrogatory, USPC/OCA T-300-33, you change your
6 characterization to its being "correct but misleading." Are
7 those correct statements?

8 A Yes.

9 MS. DREIFUSS: Is Counsel asking whether the
10 witness changed his characterization or not or whether he
11 made those two independent statements? I don't know --

12 COMMISSIONER HALEY: Let me -- just a minute, Ms.
13 Dreifuss. Counsel has asked the question and your witness
14 has answered it.

15 MS. DREIFUSS: I'm sorry, Commissioner Haley. I
16 wanted the record to be clear. I don't think what he was
17 asking was clear and that's why I asked him to clarify.

18 COMMISSIONER HALEY: Well, I'm hoping that the
19 witness -- let me just say, if the witness does not
20 understand the questions that are being put, then you
21 shouldn't answer them.

22 THE WITNESS: Okay.

23 COMMISSIONER HALEY: Proceed, please.

24 BY MR. HOLLIES:

25 Q Isn't the general question being addressed one of

1 capacity constraints?

2 A The availability of boxes.

3 Q And the availability of boxes -- when boxes are
4 not available, could that safely be characterized as a
5 capacity constraint?

6 A Yes.

7 Q Doesn't the 38 percent figure accurately represent
8 offices with a capacity constraint at some box size?

9 A Yes, but that figure is misleading.

10 Q So you've stated in several of your responses, so
11 I'll be getting into that, but you have more to say? Go
12 ahead.

13 A A boxholder doesn't care that 38 percent of
14 offices have a capacity constraint if that's what you want
15 to use --

16 Q Well, to follow on that --

17 COMMISSIONER HALEY: Just a minute, gentlemen.
18 One speak at the time. Proceed.

19 MR. HOLLIES: My error. I will show more
20 deference here.

21 BY MR. HOLLIES:

22 Q Does the 38 percent figure also represent the
23 percentage of customers facing a capacity constraint?

24 A No.

25 Q That was your point, right, or part of your point?

1 A It represents the offices in which at least one
2 box size is in use.

3 Q Doesn't your 5 percent figure accurately represent
4 offices with box service but no available boxes?

5 A That figure is cumulative. You're referring to
6 OCA-LR-2.

7 Q The point of my questions really is to indicate
8 that both the 38 and 5 percent figures are accurate for what
9 they are, that they both bear on capacity constraints in
10 somewhat different fashion?

11 A Well, as I indicated in the followup, it's not a
12 situation that a boxholder faces. As I indicated, the 38
13 percent figure only makes sense if you believe that the
14 potential boxholder seeks box service for all installed box
15 sizes at one time.

16 Q The 38 percent accurately represents offices with
17 a capacity constraint at some box size, correct?

18 A That's correct.

19 Q It's offices, right?

20 A Correct.

21 Q Similarly, your 5 percent figure is offices, is it
22 not?

23 A Correct.

24 Q And it is offices with box service but no
25 available boxes, correct?

1 A Correct.

2 Q Does it also represent the percentage of customers
3 facing a capacity constraint?

4 A No --

5 Q Right.

6 A -- it represents offices.

7 Q It represents offices.

8 Would it be fair to state that there might be
9 other accurate representations of somewhat different
10 measures of capacity constraints?

11 A Yes, but they are not presented here.

12 Q Well, so far, we have talked about only 5 and 38
13 percent, right?

14 A Correct.

15 Q Okay.

16 Are you aware of any data showing the percentage
17 of box customers facing some or any form of capacity
18 constraint?

19 A There was no data on box customers; there was
20 information about offices.

21 Q Thank you.

22 Are you aware of any data showing that customers
23 view larger boxes as suitable alternates when no capacity is
24 available in the smaller size originally sought?

25 A This gets at an interrogatory about whether folks,

1 boxholders, would move to another box size and my response
2 is, in the smaller boxes, if you didn't have a box
3 available, say box size one, a box size two would be more
4 attractive compared to the price you might have to pay at a
5 private CMRA.

6 Q Would the higher price of larger boxes perhaps be
7 a factor in a customer's choice?

8 A Yes, as would the fact that they wouldn't need
9 something that large.

10 Q In your answer to USPS-OCA-T300-7, you define
11 capacity constraint in terms of customers seeking box
12 service at the office of their choice, regardless of size,
13 and you state that customers have a 95 percent chance of
14 finding some box available at that office.

15 A Correct.

16 Q Aside from using a different definition of
17 capacity constraint from that used by Witness Lion in
18 developing his 38 percent figure for the number of Post
19 Offices facing some constraint in at least one box size, can
20 you think of other definitions of capacity constraint that
21 might be tested?

22 A We tested one, availability, or the
23 nonavailability of boxes, no boxes available.

24 Q You are referring to what resulted in the 5
25 percent figure?

1 A Correct.

2 Q All right, let's take the 5 percent and the 38
3 percent figures out of play and ask if there are others.

4 A I don't know. I am aware of two.

5 Q Okay, assume for a moment that because of box
6 turnover, boxes in need of repair, a facility needing
7 repair, some other reasons I took you through earlier,
8 assume for a moment that a facility is basically capacity
9 constrained or at capacity when 95 percent of its boxes are
10 in use. Okay?

11 A Okay.

12 Q With me on that?

13 A Yeah.

14 Q Assume further that 19.8 percent of offices
15 nationwide satisfy this definition of capacity constraint.
16 Would it be safe to say that this other measure of capacity
17 constraint would then fall somewhere in between the 5 and 38
18 percent figures?

19 A I don't know. The 95 percent that I am familiar
20 with applies to offices, nationwide, the Post Office box
21 study that Witness Lion prepared and those figures refer not
22 to an office but to offices. That is my response.

23 Q Okay, well, all of my facts were based on an
24 office focus rather than a customer focus. Let's try it one
25 more time here.

1 Assume for a moment that because of box turnover
2 and related factors, a facility is at capacity when 95
3 percent of its boxes are in use. So basically that's our
4 threshold, that's our measurement. If 95 percent are in
5 use, we will basically assume ^{that it's} ~~that's~~ at capacity, that a box
6 customer coming to the -- coming into the Post Office and
7 requesting a box will be refused because there are none.

8 A Okay.

9 Q All right.

10 Assume further that 19.8 percent of offices
11 nationwide satisfy this definition of being capacity
12 constrained.

13 A Okay.

14 Q So the question is fairly simple. If you assume
15 that that 19.8 percent figure is a measure of offices at
16 capacity when capacity is defined as 90 percent -- 95
17 percent of boxes are in use, doesn't this 19.8 percent
18 figure fall between the bounds of the 5 and 38 percent
19 figures that you and Witness Lion have bandied about?

20 A They are two different measures.

21 Q Why?

22 A Because rented or boxes in use is different from
23 boxes not available. That is, it is a subtle distinction
24 between the two.

25 As I indicated, you can have a box that is rented

1 and it is in use and not available and you can have a Post
2 Office for which there are no boxes installed and of that
3 size and it's -- it's not available as well.

4 Q Okay, I guess. I don't understand why 19.8 isn't
5 somewhere between .5 and .38 or well --

6 A It's because you are using two different measures.
7 You are comparing apples and oranges -- 38 percent
8 in use of at least one box size is different from boxes not
9 available.

10 Q Agreed. We are talking generally about the
11 existence of capacity constraints and we have two different
12 measures already in play.

13 A That's correct.

14 Q One is based on the office and one is based on box
15 size within office.

16 A Yes.

17 Q And here we have a third one and it is based upon
18 a different set of criteria.

19 A Well, then it doesn't make sense to me to say that
20 it falls between because it is like apples and oranges and
21 pears.

22 Q Okay, well then, if you consider that the 5
23 percent and the 38 percent figures are apples and oranges,
24 is this a pear and all three are fruit that measure capacity
25 constraint in some sense?

1 A The 95 percent figure is a measure of box
2 availability that potential boxholder face.

3 The 38 percent is not.

4 Q Hang on. The 5 percent is office based, not
5 customer based, correct?

6 A A customer has a 95 percent, a potential boxholder
7 has a 95 percent chance of obtaining box service at the post
8 office of their choice. That is, they can walk into any
9 post office in the country of the -- I'm sorry, of the
10 25,000 studied or so in witness Lion's testimony, and their
11 chance of getting a box is 95 percent.

12 Q That is not accurate, is it?

13 A That is accurate.

14 Q The statement is that five percent of offices have
15 no available capacity.

16 A That's right.

17 Q That's not to say that 95 percent of customers are
18 going to go and be able to get what they want. It just
19 means that if you look at the universe of offices there is a
20 95 percent chance that any one office would have some
21 available capacity, correct?

22 A The 95 percent applies to a customer going to post
23 offices looking for box service.

24 Q And that is true for the universe of customers?

25 A That's correct.

1 Q Thank you, I'll move on.

2 Would you look at your answer to USPS/OCA T300-
3 39.

4 I would like you to review that before we proceed.

5 A Okay.

6 COMMISSIONER LeBLANC: Mr. Hollies, bear with me
7 just a minute. I want to get a clarification if I can on
8 that last question you asked, just to make sure that I
9 picked up on this.

10 Mr. Callow, are you saying that 95 percent of the
11 people that go into a post office facility can rent a box if
12 they want to rent a box? Is that what you are saying?

13 THE WITNESS: Yes.

14 COMMISSIONER LeBLANC: I think it is an important
15 point.

16 THE WITNESS: Yes.

17 COMMISSIONER LeBLANC: I mean I want to make sure
18 I'm with you.

19 THE WITNESS: Maybe I can say it another way, that
20 a potential boxholder going into a post office has a 95
21 percent chance of obtaining a box in that station or in that
22 post office.

23 COMMISSIONER LeBLANC: You are not differentiating
24 between a nonresident and resident?

25 THE WITNESS: I am not.

1 COMMISSIONER LeBLANC: You are just saying any
2 individual?

3 THE WITNESS: Any individual, any potential
4 boxholder would have a 95 percent chance of walking into a
5 post office and obtaining a box at that post office.

6 COMMISSIONER LeBLANC: Thank you. I'm sorry, Mr.
7 Hollies. Thank you.

8 THE WITNESS: May I continue for just a second?

9 [Pause.]

10 BY MR. HOLLIES:

11 Q Okay. Do you recall the oath you swore when you
12 took -- or affirmed when you took the stand earlier today?

13 A Yes.

14 Q Did that include a reference to telling the truth?

15 A Yes.

16 Q And the whole truth?

17 A Yes.

18 Q And after you took the stand, you testified that
19 your written interrogatory answers would be answered the
20 same were they posed orally to you today. Is that still
21 true?

22 A Yes.

23 Q Then let's look at subpart A.

24 A Okay.

25 Q That question asked you to confirm whether the

1 Postal Service accept rates were, and I quote, "based on --
2 that's, quote, "based on," unquote -- Witness Ellard's
3 research as modified by Witness Lyons; isn't that correct?

4 A Correct.

5 Q And your answer is that, no, we were not able to
6 confirm that; correct?

7 MS. DREIFUSS: Commissioner Haley, I need to
8 interrupt for just a second. We're getting into obviously a
9 very serious issue here. You characterized what the Postal
10 Service asked the witness and you did not quote what the
11 Postal Service asked the witness. In fairness to him, since
12 you seem to be attempting to impugn his character, I want
13 you to please quote exactly from the question that the
14 Postal Service asked him and not summarize or represent or
15 characterize, but please be exact.

16 MR. HOLLIES: The substance of that point is well
17 taken.

18 COMMISSIONER HALEY: Well, I hope so.

19 MR. HOLLIES: The question --

20 COMMISSIONER HALEY: We don't really like your
21 questioning the integrity of our witness unless there is a
22 problem, okay?

23 MR. HOLLIES: Well, that's why I tried to give him

24 --

25 COMMISSIONER HALEY: Okay.

1 MR. HOLLIES: -- every opportunity --

2 COMMISSIONER HALEY: All right.

3 MR. HOLLIES: -- to correct himself.

4 COMMISSIONER HALEY: Okay. All right. Okay. I
5 mean, a witness. He's not ours. The witness who's on the
6 stand.

7 MR. HOLLIES: We like to treat all witnesses with
8 respect.

9 COMMISSIONER HALEY: We do, too. And counsel.

10 MR. HOLLIES: We are thankful for that.

11 BY MR. HOLLIES:

12 Q Thirty-nine. I guess I'll just read the first
13 subpart, if that's all right.

14 USPS/OCA-T300-39. Please refer to OCA-LR-3
15 revised at page 5. Subpart A. Please confirm that the USPS
16 accept rates in column D were based on responses to a survey
17 by existing Post Office box service customers only as
18 modified in the appendix to USPS-T1. See e.g. USPS-T-6 at
19 1, lines 12 through 13. If you do not confirm, please
20 explain.

21 A My response when I answered this basically broke
22 this question into two, and that's why I answered it the way
23 I did. And so as the second sentence says, the accept rates
24 are lower than the market research sponsored by Witness
25 Ellard. That sentence captures that the information began

1 with Witness Ellard, but the accept rates are not what
2 Witness Ellard found in his market research.

3 Q But the question just asked you if it was based
4 upon, not if it was the same; isn't that right?

5 A Yes.

6 Q So you are agreeing now that in some sense at
7 least, the accept rates are based upon Witness Ellard's
8 research?

9 A The market -- as I indicated, the market research
10 was the starting point, but the accept rates are not what
11 Witness Ellard found.

12 Q I understand that. So wouldn't a better answer
13 perhaps have been to say, confirmed; however, the accept
14 rates estimated, et cetera. Is that a fair
15 characterization?

16 MS. DREIFUSS: Commissioner Haley, there may have
17 been a better answer and there also may have been a better
18 question.

19 COMMISSIONER HALEY: All right. Where are we now?

20 MR. HOLLIES: My question is pending.

21 COMMISSIONER HALEY: That's what I thought. Okay.

22 THE WITNESS: I'm sorry. Could you repeat it,
23 please?

24 MR. HOLLIES: Okay.

25 BY MR. HOLLIES:

1 Q I think we've uncovered the root of the problem
2 and I'm trying to back down gracefully here.

3 Do you agree, then, that in some sense, the accept
4 rates are based on Witness Ellard's research?

5 A Yes. That was the starting point.

6 Q And in fact, Postal accept rates could not have
7 been calculated without his research, correct?

8 Well, let me rephrase that. Those accept rates
9 could not have been calculated without his research.

10 A Yes.

11 Q So, turning to Subpart B then, are we going to
12 head down the same road that in some sense your^es are based
13 on Ellard's, although perhaps not directly the same?

14 A Well, I think the second sentence answers it, the
15 elasticities used in OCA-LR-3 are based on the Postal
16 Service's accept rates derived from the adjusted market
17 research results.

18 Q So your answer, as it was originally filed, says
19 "No, it wasn't based on," but it was based on, is that
20 right?

21 A Again, my response is the same. I originally kind
22 of broke that question into two and focused on the accept
23 rates are different from the market research results and
24 that's why I answered it the way I did.

25 Q Yes, but the question didn't ask you whether they

1 were the same; it asked you whether there was a causal
2 relationship, correct?

3 A Apparently not. That's the way I read it, that's
4 the way I answered it.

5 MR. HOLLIES: Okay, thank you. If I could have
6 just one moment.

7 COMMISSIONER HALEY: Very well.

8 MR. HOLLIES: We have no more questions at this
9 time.

10 COMMISSIONER HALEY: Thank you, Mr. Hollies.
11 Any followup cross-examination?

12 MS. DREIFUSS: I don't know whether -- are the
13 Commissioners --

14 COMMISSIONER HALEY: We will, but I wanted to ask
15 if you had any prior to that?

16 MS. DREIFUSS: No, not at the moment.

17 COMMISSIONER HALEY: Very good. Mr. Commissioner,
18 you have some questions?

19 COMMISSIONER LeBLANC: Mr. Callow, I just need to
20 clarify something in your colloquy. That one got answered.
21 Okay.

22 How did you reject the nonresident fee, on what
23 basis?

24 THE WITNESS: As I indicated in my testimony --

25 COMMISSIONER LeBLANC: I thought I knew and then

1 in the exchange, I'm not so sure that we didn't change or
2 something happened --

3 THE WITNESS: I'm sorry.

4 COMMISSIONER LeBLANC: No, go ahead. So my basis
5 is, I know what I think I read, but then clarify it for me.
6 How did and why was it rejected?

7 THE WITNESS: Well, I think there were several
8 factors that caused me to reject it. The fact that there
9 were no attributable costs, that the Postal Service could
10 not show that there were any attributable cost differences
11 associated with providing box service to nonresidents versus
12 residents; the fact that the Postal Service could not show
13 that nonresidents engaged in what I termed cost-causing
14 behaviors that were either different in kind or greater in
15 frequency than residents, and I think those are probably the
16 two principal ones.

17 COMMISSIONER LeBLANC: Was that based on logic, as
18 you talked about earlier, or was that based on your actual
19 -- since you said there were no studies involved, if I
20 understood it right, what is that actually based on then?

21 THE WITNESS: Well, with respect to cost, Witness
22 Lion stated in the interrogatory response --

23 COMMISSIONER LeBLANC: That's what I was trying to
24 get to. So you used Witness Lion then?

25 THE WITNESS: Paul Lion.

1 COMMISSIONER LeBLANC: Lion, L-i-o-n versus L-y-
2 o-n-s?

3 THE WITNESS: Correct.

4 COMMISSIONER LeBLANC: So you used his statement?

5 THE WITNESS: Yes, and it's on my testimony at
6 page five.

7 COMMISSIONER LeBLANC: That's what I thought but
8 then I got a little confused in your colloquy, so I just
9 want to make sure that was the basis of what you used.

10 THE WITNESS: I was going to say, with respect to
11 the other, there were also no studies done with respect to
12 whether nonresidents engaged in cost-causing behaviors in a
13 greater frequency than residents. That's on page ^{seven}~~six~~ of my
14 testimony.

15 COMMISSIONER LeBLANC: Now, later on towards the
16 end -- let me back up then. Are you saying -- is it your
17 testimony that the nonresident fee is arbitrary?

18 THE WITNESS: I didn't use that word.

19 COMMISSIONER LeBLANC: I'm not trying to
20 mischaracterize, I'm just trying to understand.

21 THE WITNESS: I know you weren't. I termed it as
22 discriminatory and unfair, given that the Postal Service
23 intended to impose a large fee, that they should have a cost
24 basis for that.

25 COMMISSIONER LeBLANC: And then in your colloquy

1 with Mr. Hollies you talked about quantitative versus
2 qualitative.

3 THE WITNESS: Yes.

4 COMMISSIONER LeBLANC: But you still come back to
5 the cost base?

6 THE WITNESS: Yes. Correct.

7 COMMISSIONER LeBLANC: Now, in your colloquy with
8 Mr. Hollies again, you talked about capacity and you talked
9 about offices versus -- and I got a little confused, you
10 were talking offices at one point and then you were talking
11 boxholders at another time. Did I understand you to say
12 that capacity is driven by dollars or, in other words, the
13 cost? Is that what you were trying to get at? The cost
14 that is charged or, in effect, the rate?

15 THE WITNESS: No, maybe I can clarify what I tried
16 to say. My -- the information about box availability at
17 Post Offices is found in OCA Library Reference 2.

18 COMMISSIONER LeBLANC: Two.

19 THE WITNESS: And what that information shows is
20 that 95 percent of Post Offices have boxes available. That
21 is, a customer, a potential boxholder, has a 95 percent
22 chance of walking into one of the 25,000 or so Post Offices
23 in Witness Paul Lion's testimony, identified in Witness Paul
24 Lion's testimony, and obtaining box service of -- of
25 obtaining box service.

1 I hope that clarified it.

2 COMMISSIONER LeBLANC: And in that same regard, I
3 guess, and I believe you answered this but again, if you
4 will, clarify it for me, please. In your testimony, under
5 your purpose and scope of your testimony, on line 8 through
6 10 you state that the fees are designed to equalize
7 intergroup cost coverages. Cost coverages. And reduce the
8 disparity in cost coverages by Post Office box size.

9 THE WITNESS: Correct.

10 COMMISSIONER LeBLANC: Can you clarify that for
11 me?

12 THE WITNESS: Sure, I'll try. If we could turn to
13 page 22 of my testimony, the --

14 COMMISSIONER LeBLANC: Now this is revised.

15 THE WITNESS: Correct. It should say 11/13/96 at
16 the top.

17 COMMISSIONER LeBLANC: Okay, I just wanted to make
18 sure it was with the revised copy.

19 THE WITNESS: If you look in the current cost
20 coverage column, to the left it says average, average,
21 average.

22 You have an average of 111 in group 1-A, 110 in
23 group --

24 COMMISSIONER LeBLANC: Yes, sir, got it.

25 THE WITNESS: And then 143 and then 33. What I

1 tried to do, if you look in the last column, is equalize or
2 bring closer together those group cost coverages as
3 suggested by Witness Sherman. So you have 100 percent, 111
4 percent cost coverage in group 1-A, 110, 112 and then 67 in
5 group two. So the tendency is to bring those closer
6 together.

7 COMMISSIONER LeBLANC: Okay, thank you very much.
8 Thank you Commissioner Haley.

9 COMMISSIONER HALEY: Thank you.

10 Mr. Callow, I have a question or two here for you.

11 THE WITNESS: All right.

12 COMMISSIONER HALEY: In OCA Library Reference
13 Number 3, in the table on page 3 --

14 THE WITNESS: I have it.

15 COMMISSIONER HALEY: You identify a set of
16 proposed fees for caller service that are different from the
17 current fees and different from the fees proposed by the
18 service. Could you please confirm the specifics of your
19 caller service proposal, discuss how it varies from the
20 current fees and the services for proposed fees and identify
21 the basis for your proposals regarding caller service.

22 THE WITNESS: Okay. My -- those are annual fees.
23 That might be one source.

24 COMMISSIONER HALEY: Okay.

25 THE WITNESS: I think there may be some confusion

1 correct?

2 A That's correct.

3 Q Was it a perfect proxy?

4 A It was the only data that we had. I don't know
5 what to compare it to.

6 Q Let's look, for a moment, at the percentage
7 changes in box fees faced respectively by existing as
8 opposed to any new box customers. Wasn't the price increase
9 studied for Group 1C customers about 25 percent?

10 A Where are you referring?

11 Q I don't have the specific site for that. I can
12 dig it out.

13 A Are you looking in my testimony or --

14 Q Not yet. What is the price decrease under your
15 proposal faced by -- what is the percent decrease for Box 1C
16 fees -- Group 1C box fees?

17 A Twenty percent, 26, 27, 17 and 6.

18 Q And is there an overall average?

19 A There is: 22.5 percent.

20 Q Is it reasonable to use the same acceptance rates
21 between the two groups when there is an empirical reason to
22 believe they are different?

23 A We used -- I used the only data I had and that was
24 the acceptance rates that were on the record by Witness
25 Lyons.

1 with respect to group two, the \$110 fee and in my footnote I
2 reference a DMM cite, Section 920.4.3B, which indicated that
3 in group two, caller service was available to -- caller
4 service would be available in group two at the fee of the
5 largest box in group two, which would be \$110 a year.

6 COMMISSIONER HALEY: Okay. That, of course, was
7 another question I wanted to pose with you. Both your
8 proposal and the Service's proposal recommend 100 percent
9 fee increase in fees for current Group 2 post office boxes?

10 THE WITNESS: Yes.

11 COMMISSIONER HALEY: Okay.

12 THE WITNESS: Yes.

13 COMMISSIONER HALEY: Did you consider whether
14 these Group 2 boxholders might be adversely affected by such
15 a large increase?

16 THE WITNESS: I did, Commissioner. In my
17 testimony, I looked at the 100 percent fee increase for
18 Group 2 boxholders and my consideration was that 100 percent
19 fee increase on \$8 or another \$8 was large in percentage
20 terms but in absolute dollar amount not -- at least it did
21 not seem to me an excessive amount.

22 COMMISSIONER HALEY: Okay.

23 THE WITNESS: Of course, , you know, 100 percent
24 fee increase on a \$400 fee would be quite substantial.

25 COMMISSIONER HALEY: Okay. Does your Postal

1 Service -- not yours -- does the Postal Service's
2 implementation status report affect your proposal?

3 THE WITNESS: It didn't. I was not aware of that
4 report at the time I wrote my testimony.

5 COMMISSIONER HALEY: Very well, very well, okay.
6 Something further?

7 COMMISSIONER LeBLANC: Just one question.

8 COMMISSIONER HALEY: Go ahead. All right.

9 COMMISSIONER LeBLANC: Mr. Callow, I'm sorry, I
10 had one other question that I meant to ask earlier and
11 forgot about it.

12 Do you still stand by your statement then with the
13 way that you ended with Mr. Hollies that, and I am reading
14 from the conclusion of your testimony on page 30 where it
15 says, "The Postal Service's market research did not measure
16 the price sensitivity of nonresident boxholders to the
17 additional and separate nonresident surcharge"?

18 THE WITNESS: Yes. I still stand by that
19 testimony.

20 COMMISSIONER LeBLANC: Okay, thank you very much.
21 Thank you.

22 COMMISSIONER HALEY: Very well. Does any
23 participant have followup cross examination as a result of
24 the questions from the bench?

25 MR. HOLLIES: If I might have 30 seconds or a

1 minute here, we'll find out.

2 COMMISSIONER HALEY: All right.

3 [Pause.]

4 MR. HOLLIES: We do not have any further
5 questions.

6 COMMISSIONER HALEY: Very well, thank you.

7 This brings us then to redirect. Ms. Dreifuss,
8 would you like an opportunity to consult with your witness
9 before starting redirect testimony?

10 MS. DREIFUSS: I think it will be a great pleasure
11 to all in the room that we have no redirect.

12 COMMISSIONER HALEY: Oh, my. I think as much as
13 any it would be a great pleasure to your witness. He's been
14 here for quite a little bit.

15 THE WITNESS: I would agree.

16 COMMISSIONER HALEY: With that in mind then, if
17 there is no redirect, why -- no "re-re" -- Mr. Callow, we do
18 thank you.

19 We appreciate your appearance here today and your
20 contributions to the record.

21 If there is nothing further you are excused.

22 THE WITNESS: Thank you, Commissioner.

23 COMMISSIONER HALEY: All right.

24 MR. HOLLIES: Commissioner --

25 COMMISSIONER HALEY: Yes?

1 MR. HOLLIES: We would like to follow up on one
2 matter of this morning. We have no further questions for
3 you, Mr. Callow.

4 [Witness excused.]

5 MR. HOLLIES: We were asked if we could identify
6 the implementation witness scheduled to appear on Monday of
7 next week.

8 My understanding is that the witness is Mr. Leo
9 Raymond, who has previously testified here at the
10 Commission. Specifically I think it was in R-87.

11 COMMISSIONER HALEY: I think that will be noted in
12 the record. Thank you.

13 [Pause.]

14 COMMISSIONER HALEY: I think that perhaps we might
15 take a break -- 4:15.

16 That gives you eight minutes. We will take a
17 break now until 4:15.

18 [Brief recess.]

19 COMMISSIONER HALEY: May we be back on the record
20 again?

21 Ms. Dreifuss, will you identify your last witness
22 so that I can swear her in?

23 MS. DREIFUSS: I certainly will.

24 The OCA calls Sheryda C. Collins.

25 Whereupon,

1 SHERYDA C. COLLINS,
2 a witness, was called for examination by counsel for the
3 Office of Consumer Advocate and, having been first duly
4 sworn, was examined and testified as follows:

5 COMMISSIONER HALEY: Please state your name for
6 the record.

7 THE WITNESS: My name is Sheryda C. Collins and my
8 name is spelled S-h-e-r-y-d-a.

9 DIRECT EXAMINATION

10 BY MS. DREIFUSS:

11 Q Ms. Collins, do you have before you two copies of
12 a document marked for identification as OCA-T-400, the
13 direct testimony of Sheryda C. Collins?

14 A Yes, I do.

15 Q Was this document prepared by you or under your
16 supervision?

17 A Yes.

18 Q Do the copies before you contain a revision made
19 to page 8 on November 13, 1996?

20 A Yes.

21 Q Do you have any other revisions?

22 A No.

23 Q If you were to testify orally today, would this be
24 your testimony?

25 A Yes, it would.

1 MS. DREIFUSS: I would like to move the admission
2 of OCA-T-400 into evidence and I would be happy to hand two
3 copies to the reporter.

4 COMMISSIONER HALEY: Very well.

5 Are there any objections?

6 [No response.]

7 COMMISSIONER HALEY: Hearing none, Ms. Collins's
8 testimony and exhibits are received into evidence.

9 I direct that it be accepted into evidence and be
10 transcribed into the record at this point.

11 [The Direct Testimony of Sheryda C.
12 Collins, Exhibit OCA-T-400, was
13 received into evidence and
14 transcribed into the record.]

15

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OCA-T-400
Docket No. MC96-3

DIRECT TESTIMONY
OF
SHERYDA C. COLLINS

ON BEHALF OF
THE OFFICE OF THE CONSUMER ADVOCATE

SEPTEMBER 30, 1996

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EXHIBITS

OCA-401

OCA-402

DIRECT TESTIMONY

OF

SHERYDA C. COLLINS

STATEMENT OF QUALIFICATIONS

My name is Sheryda C. Collins. I have been employed by the Postal Rate Commission since January 1972. I was first assigned to the Office of the Special Assistant, and later to the Office of the Technical Staff, Officer of the Commission (Litigation Staff), and the Office of Technical Analysis and Planning. As a Rate Analyst and a Rate and Classification Analyst on the Commission's advisory staff, I prepared technical analyses and designed rates and classifications. My work product was incorporated within the Commission's Decisions in Docket Nos. R74-1, R87-1, R90-1 and R94-1, and in numerous classification dockets.

As a Rate and Classification Analyst on the Litigation Staff, I assisted in preparing testimony and exhibits on pricing and rate design in Docket Nos. R76-1 and R77-1. I performed technical analyses in connection with Docket Nos. MC76-5 and R78-1. I was a witness in Docket Nos. MC76-4 and MC79-2. In Docket No. R80-1, as a major rate design witness, I proposed rates for First-Class Mail, Priority Mail, Express

1 Mail, fourth-class mail and special services. I also proposed
2 a new rate category for First-Class Mail. In Docket No.
3 MC95-1, I testified about pricing and relative cost coverage
4 levels.

5 I am a graduate of the University of Massachusetts and
6 have taken credits toward an MBA degree at George Washington
7 University. I have taken courses in economics, public utility
8 regulation, statistics, accounting, data processing, and
9 programming.

1 I. PURPOSE OF TESTIMONY

2 The purpose of my testimony is to present my
3 recommendations concerning the Postal Service's classification
4 and fee proposals for four special services: certified mail,
5 return receipt, stamped cards, and insured mail.

6 The Postal Service's certified mail proposal involves no
7 classification or fee structure changes, but is merely an
8 attempt to raise revenues. I oppose this attempt to raise
9 revenues outside an omnibus rate case. Witness Sherman and
10 witness Thompson address the principles of revenue neutrality
11 in their testimony. Another reason for my opposition to the
12 proposed increase in the fee for certified mail is the
13 disarray of the record in regard to the methodology for
14 determining the costs and revenues of this service.

15 The proposal concerning return receipt service includes a
16 modest classification fee structure change and a large fee
17 increase for most users. The small increase in cost that the
18 classification change entails cannot justify the fee increase
19 and I urge the Commission to reject it.

20 The Postal Service proposes to rename postal cards as
21 "stamped cards" and institute a fee for the "new special

1 service." Although the proposed fee structure seems to mirror
2 the current practice of charging a fee for stamped envelopes,
3 the costs of manufacturing postal cards are already included
4 in the price of post and postal cards. This proposal must be
5 rejected.

6 With regard to insured mail, I raise several areas of
7 concern about the level of fees proposed for insurance. I
8 also recommend that the Commission review the maximum
9 indemnity amount proposed for document reconstruction.

1 II. CERTIFIED MAIL

2 The Postal Service proposes to raise the certified mail
3 fee from \$1.10 to \$1.50. The only purpose of this proposal is
4 to increase the fee for certified mail outside of an omnibus
5 rate case,¹ in the guise of reclassification. One purpose of
6 witness Needham's testimony, she states, is to "justif[y] the
7 need for a fee increase to better reflect the value of this
8 product to its users." USPS-T-8 at 58.

9 I oppose the Postal Service's certified mail proposal as
10 an unjustified attempt to raise revenues. There is not even
11 the pretext of a classification change. Witness Needham
12 explicitly states that the purpose of Section IV of her
13 testimony is "to propose an increase to the current certified
14 mail fee." USPS-T-8 at 58. Witness Thompson explains why the
15 proposals in this docket should not stray from the principle
16 of contribution neutrality.

17 Over the course of the recent hearings, Postal Service
18 witnesses asserted that major changes in the costing and
19 pricing of certified mail service recently had been made.

¹ Witness Sherman explains why the piecemeal adjustment of rates is economically unsound. OCA-T-100.

1 Methodologies used to price this special service since at
2 least 1984 are now considered to be in error and invalid.
3 Under the "new, correct" methodology, certified mail service
4 has been below attributable costs since 1990. Tr. 4/1087
5 (OCA/USPS-T8-15.) However, the FY 1995 cost coverage is 107
6 percent (USPS-T-8 at 71), and witness Needham confirms that if
7 the present fee is retained through the test year after rates,
8 the cost coverage would remain at this level. Although this
9 is a low cost coverage, no fee increase for certified mail
10 should be approved until all of the evidence regarding the
11 costing of this service is fully explained on the record.

12 A. The Postal Service Gives Three Unpersuasive Reasons as
13 Justification For Its Proposed Fee Increase.

14 The Postal Service gives three reasons for the proposed
15 36-percent increase in the certified mail fee. First, the
16 Postal Service is "changing [its] historic practice" with
17 regard to certified mail cost coverage calculations. This
18 causes the cost coverage of 170 percent recommended in Docket
19 No. R94-1 to fall to 107 percent. According to witness
20 Needham, certified mail's cost coverage is now far too low for
21 a product with such a high value of service. USPS-T-8 at 71.

1 Second, witness Needham states that the prices of
2 available alternatives to certified mail are so much higher
3 (an average of \$10.68 higher) that certified mail is
4 comparatively inexpensive even after the fee increase. Thus,
5 "no severe hardship from this proposed increase should be
6 expected." Id. at 72.

7 Third, the proposed increase to \$1.50, combined with the
8 proposed increase for return receipts to \$1.50, would produce
9 a \$3.00 fee. This fee would be "simple and easy for customers
10 and postal employees to remember." Id. at 73.

11 B. The Incompleteness of The Record Necessitates Rejection
12 of the Proposal.

13 From the beginning of this proceeding, the OCA has tried
14 to elicit information from the Postal Service regarding the
15 appropriate costs and revenues, and resulting cost coverages,
16 of certified mail and return receipt service. Indeed, the
17 very first interrogatory to witness Needham addressed this
18 subject. Many more followed. (See Tr. 4/1063, 1072, 1074,
19 1083, 1127, and 1197.) Unfortunately, the record is still
20 opaque. A complete explanation of what was done in the past,

1 why it was in error, and exactly how the methodology has
2 changed has not been forthcoming.

3 It appears that the Postal Service also is confused on
4 these issues. OCA/USPS-T8-8 (Tr. 4/1072) states:

5 The purpose of this and the next interrogatory is to
6 compare the Postal Service's cost coverage proposals
7 for return receipt and certified mail in this
8 proceeding with the Postal Service's proposals in
9 prior proceedings. Please confirm, correct, or as
10 appropriate, complete the following tables
11 pertaining to certified mail and return receipt.
12 The sources of Table I are the Cost and Revenue
13 Analysis Reports, TY at proposed rates.
14

15 This interrogatory has been answered once and revised two
16 times (the last revision was received on September 9 when the
17 Postal Service witnesses were cross-examined). The cost
18 coverage figures for Docket No. R90-1 for certified mail
19 variously were reported as 65 percent, 131 percent, 127
20 percent and 65 percent.

21 In Docket No. R90-1, USPS-T-22, workpaper 6, showed the
22 development of the net attributable cost for certified mail.
23 This cost was calculated by removing costs for return receipt
24 and restricted delivery. Interrogatory OCA/USPS-T8-9 (Tr.
25 4/1074) sought the appropriate breakout for R94-1 and this
26 case, and an explanation. The answer was unclear and referred

1 three times to the response to interrogatory OCA/USPS-T8-8
2 discussed above.

3 Similar questions were submitted to the Postal Service
4 before oral cross-examination. See "OCA Questions to Witness
5 Needham (T8) Submitted in Advance of Oral Cross Examination,"
6 attached as OCA-401, marked for identification but not
7 transcribed at Tr. 4/1197. The purpose of the questions was
8 "to clear up confusion, discrepancies, errors,
9 misunderstandings, etc." surrounding the costs and revenues
10 for certified mail, return receipt and restricted delivery.
11 The OCA requested that witness Needham respond in writing in
12 lieu of oral cross-examination. It was also requested that
13 any extra steps necessary be taken to clarify the record. The
14 only written response to these questions was a Notice of
15 Errata and revised answers to several interrogatories of the
16 OCA. This was not totally responsive to the questions and
17 confusion still remained.

18 When witness Lyons testified on September 9, he replied
19 to a question regarding structural changes within certified
20 mail service by saying:

21 A. That is incorrect. As I indicated earlier, the
22 Certified Mail, we changed the underlying costing
23 and refined that to better reflect the cost for
24 Certified Mail and I consider that to be a

1 structural change when the basic costs or underlying
2 costs for that have been changed.

3

4 Q. But no classification proposal is associated
5 with Certified Mail?

6

7 A. There are no classifications for Certified Mail,
8 per se. But there was, again, a major structural
9 changing in the costing.

10

11 Tr. 2/153-4.

12 When witness Needham was cross-examined on this issue,
13 she stated that the methodology used in Docket No. R90-1,
14 which was the predicate for interrogatory OCA/USPS-T8-9 and
15 the cross-examination exhibit, was in error and had been in
16 error since 1984. Tr. 4/1199-2000. So at this late stage in
17 the proceeding, we are faced with a murky record with no clear
18 and complete explanation of the methodology for developing
19 certified mail costs.

20 C. I Oppose the Fee Increase Proposed for Certified Mail.

21 I recommend that the fee for certified mail not be
22 increased until the Postal Service fully explains its
23 methodology. The present cost coverage is 107 percent and
24 witness Needham confirmed that the present \$1.10 fee would
25 produce the same cost coverage in the test year. Tr. 4/1083.
26 Witness Patelunas also confirmed that the unit costs for

1 certified mail have declined 17.6 percent from FY 1994 to
2 FY 1995. Tr. 2/249. Thus, taking into account the changing
3 cost coverage determinations, the obvious negative impact of a
4 40-cent increase on users of this service, and declining
5 attributable costs, I recommend that the fee for certified
6 mail not be changed. This matter should be revisited during
7 the next omnibus rate case.

1 III. RETURN RECEIPTS

2 Currently, there are two options available for return
3 receipts purchased at the time of mailing. One shows to whom
4 and date delivered; the other shows to whom, date delivered,
5 and address. The Postal Service proposes to merge these two
6 options into a single basic service category showing to whom
7 and date delivered, and the delivery address only if it
8 differs from the address on the mailpiece. The fee for the
9 first option would be eliminated and all return-receipt
10 mailers would pay the current higher fee which always provides
11 an address. This restructuring and simplification is proposed
12 for both regular return receipt and merchandise return
13 receipt.

1 The following table illustrates the Postal Service's
2 proposal:

3 TABLE 1
4
5 RETURN RECEIPT CURRENT AND PROPOSED FEE STRUCTURES

7	<u>Return Receipt Service</u>	<u>Current</u>	<u>Proposed</u>
8			
9	To whom & date delivered	\$1.10	NA
10	To whom, date delivered & address	\$1.50	NA
11	To whom, date delivered & address if		
12	different	NA	\$1.50
13	Requested after mailing	\$6.60	\$6.60
14	Merchandise: To whom & date	\$1.20	NA
15	Merchandise: To whom, date & address	\$1.65	NA
16	Merchandise: To whom, date & address		
17	if different	NA	\$1.65
18			

19 USPS-T-8 at 74.

20 In addition, the Postal Service proposes to limit return
21 receipt service for merchandise to Priority Mail and specified
22 Standard Mail subclasses. Certified or insured mail service
23 with regular return receipt service would be available for
24 merchandise sent by the Letter and Sealed Parcel subclass.
25 Tr. 4/1299.

26 A. The Postal Service Attempts to Justify The Proposed
27 Increase as a Service Enhancement.

28 The Postal Service attempts to justify a 40-cent increase
29 in the fee paid by most return receipt users by providing a

1 slight enhancement in service. However, the service
2 enhancement causes only a very small increase in costs which
3 can be fully covered by the lowest current return receipt fee.
4 Thus, I recommend that the Commission reject the increase in
5 the current \$1.10 fee.

6 Witness Needham advances this proposed restructuring
7 because "the change would provide better service to customers
8 who do not request delivery address information." USPS-T-8 at
9 page 86. The single option at time of mailing would provide
10 "a value enhancement" because the address would be provided if
11 changed. She claims that customers who previously purchased
12 date and signature service at time of mailing "would not be
13 paying more for the same service, but rather would pay a
14 higher fee for a service enhancement." Id. (Emphasis added.)

15 According to witness Needham, a second advantage of the
16 proposed \$1.50 fee for regular return receipt is that the sum
17 of the \$1.50 fee and her proposed increased fee for certified
18 mail will be \$3.00—a figure easy for both postal patrons and
19 employees to remember. She also states that it would continue
20 to match the certified fee, which she views as a benefit.
21 USPS-T-8 at page 86. There is no reason to tie these service

1 fees together. The notion of identical twin fees in this case
2 is arbitrary and should be rejected.

3 She also discusses the simplification of the fee
4 structure—only one fee would be offered at the time of
5 mailing, another would cover the service requested after
6 mailing. Elimination of two of the present five fees would
7 result in a 40 percent reduction in the offerings in the
8 return receipt fee structure. USPS-T-8 at page 87.

9 Witness Needham states that the proposal to limit return
10 receipt for merchandise service is a return to the original
11 intention of the service, i.e., to meet the needs of parcel
12 shippers. According to witness Needham, documents were not to
13 be included in the definition of "merchandise."

14 B. A Slight Service Enhancement Does Not Require a Thirty-
15 Six Percent Increase In The Fee.

16 The rate increase proposed by witness Needham is not
17 justified by the modest service enhancement, particularly
18 since the cost of providing the service enhancement is so
19 low.²

² See pages 18-19 *infra*.

1 The supposed advantages of the classification change are:

2 (a) service is enhanced by providing the delivery address when
3 it has changed; (b) a form of address correction is provided;
4 (c) customers will know whether the address the piece was sent
5 to is correct by checking to see if a new address was provided
6 in box #8 on Form 3811; (d) a customer will be alerted when a
7 mail piece is forwarded; and (e) the fee structure will be
8 simplified by elimination of two fee categories.

9 These benefits, however, must be balanced against the
10 public's demonstrated lack of interest in purchasing the
11 "address option" at the \$1.50 fee level. Approximately 98
12 percent of non-merchandise return receipt users currently do
13 not request the delivery address. Witness Needham was asked:
14 "Hasn't the customer already essentially voted against the
15 'value-added service enhancement' by not purchasing it?" She
16 replied: "Not at all. Not all customers may be aware of the
17 current option of providing the address where the mailpiece
18 was delivered."³ Tr. 4/1129-30. (Interrogatory OCA/USPS-T8-

³ It must be emphasized that witness Needham has provided no information on the proportion of the mailing public that is not "aware" of the option. Is this claimed lack of awareness limited to a handful of customers or widespread?

1 45(b).) I disagree with witness Needham's assessment.

2 Examination of Form 3811 reveals that at the top of the
3 return receipt, there is the statement:

4 I also wish to receive the following services
5 (for an extra fee):
6

7 1. ☐ Addressee's Address

8 2. ☐ Restricted Delivery

9 Consult postmaster for fee.

10 (Emphasis added.) I believe that customers receive an
11 unambiguous message that the provision of a delivery address
12 is available if desired. Also, it has been my experience when
13 purchasing a return receipt that the clerk has asked whether I
14 wished to purchase the additional services. Witness Needham's
15 statements that customers are not aware of these options or
16 that it is difficult to see that option because of the format
17 of Form 3811 are not plausible. Tr. 4/1182.

18 The 40-cent fee increase witness Needham proposes is not
19 justified by the cost increase caused by adoption of the
20 proposed "address if different" classification change.
21 Library Reference SSR-104, at 10, develops the unit
22 attributable costs for return receipts service. A weighted

1 average cost for non-merchandise has been calculated as
 2 follows:

3 TABLE 2 UPPER BOUND

4		Total Attributable	
5		<u>Cost</u>	<u>Weight</u>
6			
7	To whom and date delivered	\$0.86	97.31%
8	To whom, where & date delivered	<u>1.10</u>	<u>2.69%</u>
9	Weighted average unit cost	\$0.87	100.00%

10 When asked, witness Needham confirmed that providing customers
 11 with the "address if different" option will increase the
 12 average unit cost of return receipt by only one cent.
 13 Interrogatory OCA/USPS-T8-41 (redirected to the Postal
 14 Service) and Tr. 4/1180.

15 However, this one cent must be considered an upper bound
 16 for the possible increase in attributable costs under this
 17 classification proposal. The OCA in interrogatory OCA/USPS-
 18 T8-24 asked: "What percentage of return receipts which
 19 request the addressee's address have actually been forwarded
 20 and thus, the return receipt shows an address different from
 21 that listed by the sender?" Witness Needham responded: "No
 22 statistics are available on the percentage of return receipts
 23 that have been forwarded to a different address other than the
 24 one on the mailpiece." She developed a proxy for the

1 percentage of return receipts that are forwarded based on FY
 2 1993 data using total forwarded volume (all mail classes).
 3 This Undeliverable As Addressed volume forwarded percentage is
 4 1.13 percent. Therefore, the true cost of the provision of
 5 "address if different" could be as little as 0.27 cent.

6 TABLE 3 LOWER BOUND

		Total Attributable	
		<u>Cost</u>	<u>Weight</u>
9	To whom and date delivered	\$0.8600	98.87%
10	To whom, where & date delivered	<u>1.1000</u>	<u>1.13%</u>
11	Weighted average unit cost	\$0.8627	100.00%

12 In response to interrogatory OCA/USPS-T8-45 (Tr. 4/1129)
 13 witness Needham states:

14 Obviously, there is the enhancement of an address
 15 (if different) of the proposed basic return receipt
 16 service option over the current basic return receipt
 17 service option. Had the Postal Service proposed a
 18 fee increase for the current basic return receipt
 19 service option without any enhancement, this would
 20 be a pure fee increase. . . . I remain confident
 21 that, if given the choice between a pure fee
 22 increase with no enhancement and a fee increase with
 23 an enhancement, customers would opt for the
 24 enhancement.

25
 26 Because 90 percent of the return receipt users do not purchase
 27 the address option, it is more logical to add the slight
 28 service enhancement with no fee increase or, instead, maintain
 29 the status quo, i.e., no fee increase and the option to pay
 30 for the address if desired.

1 C. The Small Cost of The Service Enhancement Is No Reason to
2 Increase The Fee.

3 Because the proposal improves address hygiene (albeit
4 only slightly), I recommend that the proposed classification
5 change be adopted but without a fee increase. It simplifies
6 the fee schedules and provides an administrative benefit to
7 the Service. Return receipt service is currently covering its
8 attributable costs and contributing to overhead. Even without
9 the concerns, as discussed in witness Thompson's and witness
10 Sherman's testimonies, about the propriety of increasing
11 Postal Service revenues from rate increases in this docket,
12 the small cost increases which might follow adoption of this
13 classification change do not merit a fee adjustment at this
14 time.

1 IV. STAMPED CARD PROPOSAL

2 The Postal Service proposes a "new special service"
3 for postal cards with an attendant fee. On its face, the
4 classification proposal to charge a fee for a postal card is
5 analogous to the current practice of charging a fee for
6 stamped envelopes. However, when the facts surrounding the
7 proposal are examined, it is clear that this new fee is
8 without merit.

9 The nature of the proposed classification change is to
10 rename postal cards as "stamped cards." Witness Needham
11 asserts that this would reflect the parallel nature of postal
12 cards and stamped envelopes and help customers differentiate
13 the product from post cards. USPS-T-8 at 94.

14 The Postal Service proposes to amend the Domestic Mail
15 Classification Schedule to add a classification and separate
16 fee for stamped cards that would correspond to the fee for
17 stamped envelopes. This fee, two cents per card, would
18 ostensibly pay for the manufacturing costs of the cards and
19 add a markup to reflect the "value of service for purchasers
20 of these cards." USPS-T-8 at page 95.

1 A. The Proposed New Fee Is Not Justified Because The
2 Manufacturing Costs Are Already Accounted For In The Post
3 Card Rate and Postal Cards Are Less Costly to Process
4 Than Other Cards.

5 In principle, a separate fee to cover the manufacturing
6 costs of ancillary supplies provided mailers may be
7 reasonable. However, the GPO manufacturing costs are already
8 included in the attributable costs for postal cards. Witness
9 Patelunas confirms this in answer to interrogatory OCA/USPS-
10 T5-10 (Tr. 2/251). (Witness Needham reaffirms this in answer
11 to OCA/USPS-T8-37 at Tr. 4/1119.) These manufacturing costs
12 are a line item in the Cost Segments and Components Report
13 (USPS-T5, WP-A, section 16.1, column 1, page 49) and witness
14 Patelunas confirms that no manufacturing costs were treated as
15 institutional. Thus, the manufacturing costs are already
16 attributed to postal cards and are covered by the 20-cents
17 postage paid by users of postal cards. Adding these costs a
18 second time in the form of a stamped card fee cannot be
19 condoned.

20 Exhibit USPS-T-5C at page 10 shows a per-piece cost for
21 postal cards of 7.5 cents. The per-piece cost for private
22 cards is 16.2 cents. Witness Patelunas explains that there

1 are no known, certain reasons for the great difference in unit
2 costs. He states there are some speculative reasons. Postal
3 cards may be less costly to process because they are, by
4 design, of uniform size, card stock and shape, and thus are
5 more compatible with postal processing equipment than post
6 cards. Address hygiene may be better. Postal cards may be
7 more frequently used by organizations or businesses using
8 mailing lists and computer-generated labels. These addresses
9 tend to be clean and automatable whereas post cards are
10 frequently used by people on vacation and are handwritten.
11 Tr. 2/252 (Interrogatory OCA/USPS-T5-11). Witness Patelunas
12 confirms that the unit cost of postal cards has been less than
13 one-half of the unit cost of private cards at least since
14 FY 1990. Id. ✓

15 B. The Proposed New Service and Fee Should Be Rejected.

16 Given the per-piece cost of 7.5-cents for a postal card
17 and an average revenue per piece for total postcards of
18 19.7-cents (Exhibit USPS-T-5C at page 10), the present
19 implicit cost coverage of postal cards is 263 percent. When
20 the two-cent fee proposed by the Postal Service is added to
21 the postage, the implicit cost coverage exceeds 289 percent.

1 Witness Needham attempts to obscure this point. She insists
2 on calculating a separate FY 1996 cost coverage of 170 percent
3 based on year-to-date manufacturing costs and her proposed
4 fee.⁴ She completely disregards the fact that these costs are
5 already covered by the current 263 percent implicit cost
6 coverage. Witness Needham states that the proposed new
7 special service costs and revenues "are not intended to be a
8 part of the postal card revenues and costs." Interrogatory
9 OCA/USPS-T5-25(e) (redirected to witness Needham). No matter
10 how much she protests, witness Needham cannot change the fact
11 that the costs she seeks to recover in her proposed new
12 stamped card fee are already included in postal card costs and
13 were used in determining the current 20-cent postcard rate.
14 If certain attributable costs are to be shifted from the post
15 card subclass to a special service, then the rates for post
16 and postal cards should be reexamined. If the manufacturing
17 costs are removed from the attributable costs of postal cards,
18 the implicit cost coverage for that category becomes an
19 astronomical 303 percent.

⁴ In contrast, the FY 1996 cost coverage using witness Patelunas' CRA unit costs and the 2-cent fee is 224 percent. Tr. 4/1113-15 (OCA/USPS-T8-35(e)).

1 Given the above facts, it would be unconscionable to
2 approve a rate increase, in the guise of a "new special
3 service," to a rate category which is already making one of
4 the largest contributions to institutional costs of any
5 category of mail. I recommend that the Commission not
6 institute this new special service and its attendant fee.

1 V. INSURED MAIL

2 Currently, the Postal Service offers insured mail
3 service in the amounts of \$0.01 to \$50, \$50.01 to \$100,
4 and in \$100 increments up to \$600. DMM R900.7.0.
5 Insurance indemnification coverage up to \$500 is provided
6 for merchandise sent Express Mail at no additional
7 charge. Express Mail also provides document
8 reconstruction indemnity with a limit of \$50,000 per
9 piece, and \$500,000 per occurrence.

10 The Postal Service proposes classification changes
11 designed to increase the indemnity limit for domestic
12 insured mail and Express Mail containing merchandise.
13 Specifically, it proposes to increase the level of
14 indemnification to \$5,000 in \$100 increments. USPS T-8
15 at 28. The proposed charge is \$0.90 per \$100 of
16 insurance. It also proposes a classification change to
17 decrease the document reconstruction insurance for
18 Express Mail to \$500 per piece, and \$5,000 per
19 occurrence.

20

1 A. The Postal Service Uses Market Surveys to Justify Its
2 Proposal.

3 The indemnity levels of insurance have been raised
4 by \$100 increments in all omnibus rate cases since 1978.
5 These increases were designed to keep pace with
6 inflation, with no explicit consideration of customers'
7 needs. USPS-T-8 at 31. In response to customer requests
8 to raise the insurance indemnity limits, the Postal
9 Service conducted two market research surveys to
10 determine what the indemnity needs of its customers are
11 and what services could feasibly be offered to meet these
12 needs. USPS-T-8 at 32. Based on the findings of both
13 surveys plus comments and requests from customers, the
14 Postal Service concludes that there is significant demand
15 to raise the indemnity levels for insured mail service to
16 accommodate high value items.

17 B. There Is Little Support For The Proposed Fee Amounts.

18 The Postal Service proposes to charge \$.90 for each
19 \$100 increase in indemnity value. Witness Needham states
20 that

21 [t]he \$.90 incremental fee for each \$100 value level
22 was chosen because it merely extends the current
23 incremental insured mail fee of \$.90 per \$100 in
24 value recommended by the Commission in Docket No.

1 R94-1. No indemnity analyses were performed to
2 arrive at this fee. No other fees were considered.
3 Since this proposal is an enhancement to an existing
4 special service, the Postal Service determined that
5 continuing the existing fee structure would be the
6 most reasonable course of action.

7
8 Tr. 4/1107 (Interrogatory OCA/USPS-T8-30.)
9

10 The proposed insurance fees are all much higher than
11 competing private delivery firms' fees as shown in the
12 attached table from Library Reference SSR-109 (OCA-402).
13 The proposed fee at the \$5,000 level is \$45.70 versus
14 \$17.15 for Roadway Package Service and UPS. Witness
15 Needham is not concerned about this. She dismisses the
16 differences by claiming that current fees already exceed
17 the competition. She states that the fees should be set
18 where "the price [equals what] the market can bear"
19 because the Postal Service's customers are presently
20 willing to pay more for postal insurance. Tr. 4/1121
21 (Interrogatory OCA/USPS-T8-38).

22 However, it is not clear that survey respondents
23 were aware of the proposed fee levels when they estimated
24 the number of parcels they would mail under increased
25 indemnity limits. Question 4 of the survey asks: "Would
26 you mail parcels with values between \$2,000 to \$5,000

1 with the Postal Service if the insurance level was
2 increased to \$5,000?" The parenthetical instruction to
3 the telephone researchers was: "(If they ask a suggested
4 price tell them approximately \$.90 per \$100 in value or
5 1% of the value)." Library Reference SSR-109, Part II,
6 p. 112. How many respondents asked for a suggested
7 price? Would it have affected their response if they
8 knew the suggested price? We do not know.

9 There has been a decline in insured mail volume over
10 the years since Postal Reorganization. Witness Needham
11 attributes much of the decline to increased competition
12 from alternative parcel carriers who offer much higher
13 indemnity limits than the Postal Service.⁵ USPS-T-8 at
14 pages 39-40. One reason witness Needham gives for
15 offering this proposal is to stop or reverse the decline
16 in insurance volumes by becoming more competitive. USPS-
17 T-8 at page 40. It is not clear that the proposed
18 insurance fees will really be competitive. It seems
19 likely that somewhat lower fees might still provide a

⁵ Witness Needham does not address an alternative theory to explain the decline in insured mail volumes, i.e., that postal insurance rates higher than the competition might have driven away volume.

1 contribution to institutional costs and allow the Postal
2 Service to improve its competitive position.

3 Witness Needham was also asked about her proposed
4 insurance fees in relation to the current and proposed
5 insured registry fees. Her answer is the same—insurance
6 fees are already higher than some registry fees and
7 substantial use still is made of insurance. She expects
8 her proposal to be a viable alternative to registry.

9 Tr. 4/1108 (Interrogatory OCA/USPS-T8-31.)

10 The proposed insured mail fee levels also increase
11 the potential for diversion of insured mail to insured
12 registry. Witness Needham was asked if it is likely that
13 many customers choose insured mail over insured registry
14 service only because they are unaware that insured
15 registry is less expensive than insured mail. She
16 conceded the possibility. However, she assumes that
17 registry and insurance customers know exactly what
18 service they want. She does not know the extent to which
19 clerks explain to customers various options available,
20 even when asked. Tr. 4/1209-10.

1 C. The Commission Should Direct The Postal Service to
2 Collect Indemnification and Document Reconstruction Data.

3 The primary advantage of the proposed \$.90 charge
4 per \$100 of insurance is that it is the current
5 incremental charge. No indemnity analyses were done. I
6 am not sure that it is possible to accurately project
7 indemnity losses in this situation considering the large
8 increase in indemnity. The Postal Service's only
9 experience with such levels of indemnity are with
10 registered mail, which is a more secure service. The
11 Commission should direct the Postal Service to collect
12 appropriate data by insurance indemnity levels. This
13 will allow them to perform the necessary indemnification
14 analyses to fine tune, and hopefully lower, the fee
15 levels.

16 A reduction in Express Mail indemnification for
17 document reconstruction may be appropriate. Today, new
18 technology (photocopy machines, FAX, computers, etc.)
19 have made reconstruction easier and much less expensive
20 than it was in the 1970's. Recent claims have been
21 substantially below the present maximums. USPS-T-8 at
22 56.

1 However, to be conservative, the Commission may wish
2 to consider a lesser reduction than that proposed by the
3 Postal Service. The Postal Service's proposal is to
4 reduce indemnity to \$500 per piece. This is five times
5 the average indemnity claim of \$100. On cross
6 examination, witness Needham testified that there was no
7 information on the maximum claim paid because it is
8 considered privileged. Thus, the only figures available
9 are the sum of claims paid for all document
10 reconstruction and the total number of claims settled.
11 Tr. 4/1270-71.

12 Chairman Gleiman queried the witness to clarify this
13 issue:

14 Is it then reasonable to assume that you do not know
15 whether the proposed maximum fee for document
16 reconstruction is high enough to cover the largest
17 settled claim last year?

18
19 THE WITNESS:

20
21 Actually, this isn't a fee; it's just a proposal to
22 reduce the indemnity limit. But I don't know if the
23 proposal to reduce the indemnity limit to 500 is
24 lower than the maximum [claim].

25
26 Tr. 4/1286. Without knowledge of the amount of the
27 maximum paid claim for the most recent fiscal year, it
28 might be prudent to reduce the maximum indemnity amounts

1 in stages, rather than a single step. The Postal Service
2 should be directed to gather data on the amount of
3 maximum claims in a manner which would avoid privileged
4 matters.

OCA QUESTIONS TO WITNESS NEEDHAM (T8)
SUBMITTED IN ADVANCE OF ORAL CROSS EXAMINATION

The purpose of these questions is to clear up confusion, discrepancies, errors, misunderstandings, etc. which are making it difficult to make direct comparisons of costs and revenues for certified mail, return receipt, and restricted delivery between several cases over time. If these questions are not completely on point, please take any extra steps necessary to provide the appropriate question(s) and answer(s) which will clarify the record. It would be preferable if you would provide a written response to this request for insertion into the record rather than responding orally on the stand. The OCA will move that it be transcribed and incorporated into the record.

1. Please refer to interrogatories OCA/USPS-T8-8 and 9. The first paragraph of OCA 9 refers to witness Larson's W/P-6, p.2, a copy of which is attached.

This workpaper shows the CRA attributable costs after rates of \$288,586, which is the figure you show in your answer to OCA 8, Table I. You later, on August 15, revised that figure to \$147,859. This number also appears on W/P-6 and is referred to

as Net Attributable Costs, which is \$288,586 less \$134,294 cost of return receipt and less \$6,433 cost of restricted delivery.

Table I of OCA 8 also shows CRA cost for certified mail for Docket No. R94-1 and this Docket of \$305.8 million and \$285.9 million, respectively.

Should some amount of costs for return receipt and restricted delivery be removed from these costs to arrive at Net Attributable Costs comparable to those shown on W/P-6?

If yes, please provide those figures for the record.

If no, please explain why not.

2. Please refer to your answer to OCA 9 (c). There you say that ancillary service revenues should be excluded from certified mail cost coverage calculations. Shouldn't ancillary costs be excluded also? Why or why not? Please explain in detail.

3. If ancillary service costs should be excluded, please refer to your answer to OCA/USPS-T8-43 (c). Could you supply a revised response for the record?

SPECIAL SERVICES

USPS-1

CERTIFIED MAIL

WP-6

Page 2 of 2

DEVELOPMENT OF NET ATTRIBUTABLE COSTS (000)'S

	TEST YEAR	
	BEFORE RATES	AFTER RATES
Attributable Costs 1/	\$292,369	\$288,586
Minus return receipt costs 2/	\$136,792	\$134,294
Minus restricted delivery costs 3/	\$6,553	\$6,433
Net attributable costs	\$149,024	\$147,859

1/ USPS-T-17.

2/ All the return receipt costs from the special study are netted out, with the exception of the return receipt returning through the mailstream. This cost is picked up separately--as forms 3811/3811A, unattached--in the cost system. See the Summary Description, LR F-2.

3/ See WP-13.

OCA-401
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Competitor and Post. vice Insurance Rates

Indemnity Amount	RPS	UPS	FEDEX*	Airborne**	DHL	Express Mail	Priority	Registered
\$ 0 - 50	\$0.00	\$0.00	\$0.00	\$0.00	\$0.70	\$0.00	\$0.75	\$4.95
\$ 50 - 100	\$0.00	\$0.00	\$0.00	\$0.00	\$1.40	\$0.00	\$1.60	\$4.95
\$100 - 200	\$0.35	\$0.35	\$0.50	\$0.65	\$2.10	\$0.00	\$2.50	\$5.40
\$200 - 300	\$0.70	\$0.70	\$1.00	\$1.30	\$2.80	\$0.00	\$3.40	\$5.40
\$300 - 400	\$1.05	\$1.05	\$1.50	\$1.95	\$3.50	\$0.00	\$4.30	\$5.40
\$400 - 500	\$1.40	\$1.40	\$2.00	\$2.60	\$4.20	\$0.00	\$5.20	\$5.40
\$500 - 600	\$1.75	\$1.75	\$2.50	\$3.25	\$4.90		\$6.10	\$5.85
\$600 - 700	\$2.10	\$2.10	\$3.00	\$3.90	\$5.60			\$5.85
\$700 - 800	\$2.45	\$2.45	\$3.50	\$4.55	\$6.30			\$5.85
\$800 - 900	\$2.80	\$2.80	\$4.00	\$5.20	\$7.00			\$5.85
\$900 - 1,000	\$3.15	\$3.15	\$4.50	\$5.85	\$7.70			\$5.85
\$1,000 - 1,100	\$3.50	\$3.50	\$5.00	\$6.50	\$8.40			\$6.30
\$1,100 - 1,200	\$3.85	\$3.85	\$5.50	\$7.15	\$9.10			\$6.30
\$1,200 - 1,300	\$4.20	\$4.20	\$6.00	\$7.80	\$9.80			\$6.30
\$1,300 - 1,400	\$4.55	\$4.55	\$6.50	\$8.45	\$10.50			\$6.30
\$1,400 - 1,500	\$4.90	\$4.90	\$7.00	\$9.10	\$11.20			\$6.30
\$1,500 - 1,600	\$5.25	\$5.25	\$7.50	\$9.75	\$11.90			\$6.30
\$1,600 - 1,700	\$5.60	\$5.60	\$8.00	\$10.40	\$12.60			\$6.30
\$1,700 - 1,800	\$5.95	\$5.95	\$8.50	\$11.05	\$13.30			\$6.30
\$1,800 - 1,900	\$6.30	\$6.30	\$9.00	\$11.70	\$14.00			\$6.30
\$1,900 - 2,000	\$6.65	\$6.65	\$9.50	\$12.35	\$14.70			\$6.30
\$2,000 - 2,100	\$7.00	\$7.00	\$10.00	\$13.00	\$15.40			\$6.75
\$2,100 - 2,200	\$7.35	\$7.35	\$10.50	\$13.65	\$16.10			\$6.75
\$2,200 - 2,300	\$7.70	\$7.70	\$11.00	\$14.30	\$16.80			\$6.75
\$2,300 - 2,400	\$8.05	\$8.05	\$11.50	\$14.95	\$17.50			\$6.75
\$2,400 - 2,500	\$8.40	\$8.40	\$12.00	\$15.60	\$18.20			\$6.75
\$2,500 - 2,600	\$8.75	\$8.75	\$12.50	\$16.25	\$18.90			\$6.75
\$2,600 - 2,700	\$9.10	\$9.10	\$13.00	\$16.90	\$19.60			\$6.75
\$2,700 - 2,800	\$9.45	\$9.45	\$13.50	\$17.55	\$20.30			\$6.75
\$2,800 - 2,900	\$9.80	\$9.80	\$14.00	\$18.20	\$21.00			\$6.75
\$2,900 - 3,000	\$10.15	\$10.15	\$14.50	\$18.85	\$21.70			\$6.75
\$3,000 - 3,100	\$10.50	\$10.50	\$15.00	\$19.50	\$22.40			\$7.20
\$3,100 - 3,200	\$10.85	\$10.85	\$15.50	\$20.15	\$23.10			\$7.20
\$3,200 - 3,300	\$11.20	\$11.20	\$16.00	\$20.80	\$23.80			\$7.20
\$3,300 - 3,400	\$11.55	\$11.55	\$16.50	\$21.45	\$24.50			\$7.20
\$3,400 - 3,500	\$11.90	\$11.90	\$17.00	\$22.10	\$25.20			\$7.20

Competitor and Postage Insurance Rates

Indemnity Amount	RPS	UPS	FEDEX*	Airborne**	DHL	Express Mail	Priority	Registered
\$3,500 - 3,600	\$12.25	\$12.25	\$17.50	\$22.75	\$25.90			\$7.20
\$3,600 - 3,700	\$12.60	\$12.60	\$18.00	\$23.40	\$26.60			\$7.20
\$3,700 - 3,800	\$12.95	\$12.95	\$18.50	\$24.05	\$27.30			\$7.20
\$3,800 - 3,900	\$13.30	\$13.30	\$19.00	\$24.70	\$28.00			\$7.20
\$3,900 - 4,000	\$13.65	\$13.65	\$19.50	\$25.35	\$28.70			\$7.20
\$4,000 - 4,100	\$14.00	\$14.00	\$20.00	\$26.00	\$29.40			\$7.65
\$4,100 - 4,200	\$14.35	\$14.35	\$20.50	\$26.65	\$30.10			\$7.65
\$4,200 - 4,300	\$14.70	\$14.70	\$21.00	\$27.30	\$30.80			\$7.65
\$4,300 - 4,400	\$15.05	\$15.05	\$21.50	\$27.95	\$31.50			\$7.65
\$4,400 - 4,500	\$15.40	\$15.40	\$22.00	\$28.60	\$32.20			\$7.65
\$4,500 - 4,600	\$15.75	\$15.75	\$22.50	\$29.25	\$32.90			\$7.65
\$4,600 - 4,700	\$16.10	\$16.10	\$23.00	\$29.90	\$33.60			\$7.65
\$4,700 - 4,800	\$16.45	\$16.45	\$23.50	\$30.55	\$34.30			\$7.65
\$4,800 - 4,900	\$16.80	\$16.80	\$24.00	\$31.20	\$35.00			\$7.65
\$4,900 - 5,000	\$17.15	\$17.15	\$24.50	\$31.85	\$35.70			\$7.65
Maximum Liability	\$25,000	\$50,000	\$500 Letter \$50,000 Box	\$5,000	\$25,000	\$500	\$600	\$25,000+

Notes:

* Different liability limits for FEDEX Letters and Boxes.

**Airborne requires that any package with a declared value of greater than \$5,000 receive headquarter's approval for shipment.

1 COMMISSIONER HALEY: You are available, of course,
2 for cross-examination.

3 MS. DREIFUSS: Yes, Commissioner Haley,
4 Ms. Collins is available for cross-examination.

5 COMMISSIONER HALEY: Ms. Collins, have you had an
6 opportunity to examine the packet of designated written
7 cross-examination that was made available to you earlier
8 today?

9 THE WITNESS: Yes, sir, I was.

10 COMMISSIONER HALEY: Okay. If these questions
11 were asked of you today, would your answers be the same as
12 those you previously provided in writing?

13 THE WITNESS: Yes, sir.

14 COMMISSIONER HALEY: Counsel, were other copies
15 given to the reporter? You have them?

16 Two copies of the designated written cross-
17 examination of Witness Collins have been given to the
18 reporter and I direct that they be accepted into evidence
19 and transcribed into the record at this point.

20 [The Designated Written Cross-
21 Examination of Sheryda C. Collins
22 was received into evidence and
23 transcribed into the record.]

24
25

POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Special Services Fees and Classifications

Docket No. MC96-3

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF OFFICE OF THE CONSUMER ADVOCATE
WITNESS COLLINS
(OCA-T400)

The parties listed below have designated answers to interrogatories directed to witness Collins as written cross-examination.

Party

Answers To Interrogatories

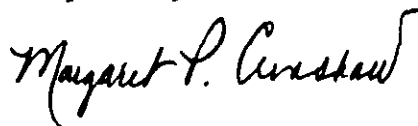
Douglas F. Carlson

USPS: Interrogatories T400-1-20,
22-23, 25-28, 30-34, 36, and 38-52
USPS: T100 6(a)-(c) redirected to
witness Collins

U. S. Postal Service

USPS: Interrogatories T400-1-2
4, 7, 10, 12, 15, 16, 18, 19,
22, 23(a), 27, 30-34, and 36, 39-45
and 47

Respectfully submitted,



Margaret P. Crenshaw
Secretary

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-1-11

USPS/OCA-T400-1. Please refer to page 3 lines 8-9 of your testimony. Confirm that your opposition to the Postal Service's proposal to raise revenues outside an omnibus rate case is based solely on policy grounds. Please explain any negative response.

A. The next sentence on lines 9-11 of my testimony states, "Witness Sherman and witness Thompson address the principles of revenue neutrality in their testimony." These witnesses, particularly Thompson, present reasons not to target selected special services for fee increases for the purpose of increasing net revenue in this docket. I would not characterize their testimony as purely policy.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-1-11

USPS/OCA-T400-2. Please refer to page 6 lines 1-11 of your testimony and to Exhibit USPS-T-1C. Please confirm the following:

- a. The before-rates attributable cost for certified mail in this filing is \$297,811,000.
 - b. The before-rates revenues for certified mail in this filing are \$318,574,000.
 - c. The before-rates cost coverage for certified mail in this filing is 107 percent.
 - d. The after-rates attributable cost for certified mail in this filing is \$285,880,000.
 - e. The after-rates revenues for certified mail in this filing are \$416,705,000.
 - f. The after-rates cost coverage for certified mail in this filing is 146 percent.
 - g. If your responses to any of subparts a-f above are negative, identify with specificity all information which is either lacking or precludes you from offering a confirmation.
- A. a.-f. These numbers appear on Exhibit USPS-T-1C.
- g. N.A.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-1-11

USPS-OCA-T400-3. Please refer to page 8 lines 15-17 of your testimony.

- a. Identify the date on which the initial response to OCA/USPS-T8-8 was filed.
- b. Identify the three dates on which revisions were filed to witness Needham's response to OCA/USPS-T8-8.
- c. Confirm that witness Needham's final revision to OCA/USPS-T8-8 was filed two days before her appearance on her USPS-T8 testimony.

A. a. July 25, 1996.

b. The 131 percent figure is from the original interrogatory dated July 11, 1996. Its source is Patelunas' Exhibit 17E, page 23. (Docket No. R90-1, USPS-T-17.) The interrogatory was first answered on July 25, 1996, and supplied a 65 percent cost coverage figure in place of the 131 percent. The 65 percent figure became 127 percent by Notice of Errata dated August 15, 1996. The final Notice of Errata, which changed the coverage back to 65 percent, is dated September 9, 1996.

c. Confirmed. However, the September 9 Errata did not clearly explain the underlying reasons for the changes. Witness Lyons, who appeared on that day, gave the first real indication of a fundamental change to the underlying costing. Tr. 2/153-54. It was not until September 11, when she testified, that witness Needham stated there were errors in the Docket No. R90-1 workpapers. However, as I state in my testimony at pages 7 and 8, lines 20 and 1-2, respectively, "A complete explanation of

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-1-11

CONTINUATION OF ANSWER TO USPS/OCA-T400-3:

what was done in the past, why it was in error, and exactly how
the methodology has changed [still] has not been forthcoming."

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-1-11

USPS/OCA-T400-4. Please refer to page 20 lines 1-7 of your testimony.

- a. Please provide a schedule comparable to Schedule SS-16 with your proposed fees.
- b. Please provide the before- and after-rates total attributable costs for return receipts.
- c. Please provide the before- and after-rates total revenues for return receipts.
- d. Please provide the before- and after-rates cost coverages for return receipts.

A. a.

RETURN RECEIPT CURRENT AND PROPOSED FEE STRUCTURES

<u>Return Receipt Service</u>	<u>Current</u>	<u>Proposed</u>
To whom & date delivered	\$1.10	NA
To whom, date delivered & address	\$1.50	NA
To whom, date delivered & address if different	NA	\$1.10
Requested after mailing	\$6.60	\$6.60
Merchandise: To whom & date delivered	\$1.20	\$1.20
Merchandise: To whom, date & address	\$1.65	\$1.65

b.-d. For before-rates figures, see Lyons WP D, pages 2-3. After-rates figures are similar, as there is only a slight change in cost as a result of providing a corrected address and a slight change in revenue by keeping the current rate. See OCA version of USPS-T-1, WP D, pages 2-3, attached.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-1-11

USPS/OCA-T400-5. Please refer to page 6 lines 1-11 of your testimony and Tr. 4/1073. Please confirm the following:

- a. The Postal Service proposed attributable cost for certified mail in Docket No. R94-1 was \$305.8 million
- b. The Postal Service proposed revenues for certified mail in Docket No. R94-1 were \$293.2 million.
- c. The resulting cost coverage using subparts (a) and (b) for certified mail in Docket No. R94-1 was 96 percent.
- d. If your responses to any of subparts a-c above are negative, identify with specificity all information which is either lacking or precludes you from offering a confirmation.

A. a. Confirmed.

b. Not confirmed. See, Docket No. R94-1, Exh. USPS-11F, column (4), After Rates Revenue, \$526,248 (thousand).

c.-d. Since I am unable to confirm part (b), I am unable to confirm part (c). See Exhibit noted above; also see PRC Decision Appendix G, Schedule 1, "Revenue" column, \$526,248 (thousand).

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-1-11

USPS/OCA-T400-6. Please refer to page 6 lines 1-11 of your testimony and Tr. 4/1073. Please confirm the following:

- a. The Postal Service proposed attributable cost for certified mail in Docket No. R90-1 was \$288.6 million.
- b. The Postal Service proposed revenues for certified mail in Docket No. R94-1 were \$188.4 million.
- c. The resulting cost coverage using subparts (a) and (b) for certified mail in Docket No. R94-1 was 65 percent.
- d. If your responses to any of subparts a-c above are negative, identify with specificity all information which is either lacking or precludes you from offering a confirmation.

A. a. Not confirmed. See Docket No. R90-1, USPS-T-22 at page 40 and WP6, page 2, \$147,859 (thousand).

b. Confirmed. See Docket No. R90-1, USPS-T-22 at page 40.

c.-d. Since I was unable to confirm part (a), I am unable to confirm part (c).

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-1-11

USPS/OCA-T400-7.

- a. Have you ever submitted testimony in support of a rate or fee proposal for which the cost coverage was below 100 percent? If your response is affirmative, please provide a citation to the docket and testimony number.
- b. Has the OCA ever submitted testimony in support of a rate or fee proposal for which the cost coverage was below 100 percent? If your response is affirmative, please provide a citation to the docket and testimony.
- c. Do you agree with the principle that rates and fees for products should be priced so that after-rates revenues exceed costs? If your response is negative, please explain.
- d. In your opinion, is it appropriate to raise a rate or fee for a product for which the cost coverage has consistently been held below 100 percent?

A. a. I do not believe I have. However, I'm not sure of your definition of "a rate or fee proposal." Generally, cost coverages are applied at the subclass level, and not to rate cells. Thus, it is not necessary (or always possible) to calculate a cost coverage for every individual rate.

b. I do not know. I have not done research on all OCA proposals submitted over the last 25 years.

c.-d. Yes. However, I'm not sure of your definition of "a rate or fee for a product." Generally, cost coverages are applied at the subclass level, and not to rate cells. Thus, it is not necessary (or always possible) to calculate a cost coverage for every individual rate.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-1-11

USPS/OCA-T400-8. Please refer to page 6 lines 14-15 of your testimony.

- a. Please confirm that witness Needham considered the own-price elasticity of certified mail in analyzing the certified mail fee proposal. Please explain any negative response.
- b. Please confirm that witness Needham considered qualitative information about the value of service of certified mail from the mailer's perspective in analyzing the certified mail fee proposal. Please explain any negative response.
- c. Please confirm that witness Needham considered qualitative information about the value of service of certified mail from the recipient's perspective in analyzing the certifying mail fee proposal. Please explain any negative response.

A. a. Witness Needham states at page 70 of her testimony,

"[C]ertified mail's own price elasticity of between -0.2 and -0.3 is evidence of a high value of service." (Footnote omitted.)

b. Confirmed.

c. Not confirmed. Witness Needham's discussion of the recipient's response to a certified mail piece seems to be confined to the high value of this response to the sender. See USPS-T-8 at page 70, lines 8-11, and page 71, lines 3-4.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-1-11

USPS/OCA-T400-9. Please refer to page 20 lines 8-14 of your testimony.

- a. Confirm that the OCA has never proposed an increase in a rate or fee for a product for which there is no corresponding change in per piece costs. If your response is negative, please identify the proposals and dockets in which such rates or fees were proposed.
- b. Confirm that the OCA has never proposed an increase in a rate or fee for a product for which there has been an increase in total after-rates costs over before-rates costs equal to or less than 0.3 percent. If your response is negative, please identify the proposals and dockets in which such rates or fees were proposed.

A. a.-b. I do not know. I have not done research on all OCA proposals submitted over the past 25 years.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-1-11

OCA/USPS-T400-10. Please refer to your testimony at page 24 lines 9-19.

- a. Please confirm that total manufacturing costs for postal cards in FY96 are reported as \$3,760,000 by witness Patelunas in Exhibit USPS-T-5H at p. 49 and are reported as \$4,950,000 by witness Needham in USPS-T-8 at p. 107. If you do not confirm, please explain your response.
- b. Please confirm that total attributable costs for postal and post card subclass costs are \$631,401,000 (See Exhibit USPS-T-5I at p. 1). If you do not confirm, please explain your response.
- c. Please confirm that, using witness Patelunas' manufacturing cost figure in subpart (a), that postal card manufacturing costs represent 0.6% of total postal and post card subclass attributable costs. If you do not confirm, please explain your response.
- d. Please confirm that, using witness Needham's manufacturing cost figure in subpart (a), that postal card manufacturing costs represent 0.8% of total postal and post card subclass attributable costs. If you do not confirm, please explain your response.
- e. Assume the Postal Service's stamped card proposal is adopted as proposed. Is it your belief that, in future rate proceedings involving changes in postal and postcard subclass rates, the Postal Service intends to continue to include postal card manufacturing costs in the attributable costs for the postal and post card subclass? Please provide a citation in support of this proposition.
- f. Assume that all of the Postal Service's proposals are adopted as proposed. Would you agree or disagree with the proposition that in the next rate proceeding in which postal and post card subclass rates are proposed to be changed, manufacturing costs for postal cards should be excluded from the total attributable costs for rate categories within that subclass? Explain any negative response.
- g. Isn't it true that all users of the postal and post card subclass pay, to some degree, for the manufacturing costs of postal cards? If your answer is no, please explain.
- h. If total manufacturing costs for postal cards were attributed to postal cards alone, please state what the per piece attributable costs for postal cards would be for the test year and the base year in this docket. Please show all calculations and provide citations for all numbers used in calculations.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-1-11

CONTINUATION OF INTERROGATORY & ANSWER TO USPS/OCA-T400-10:

- i. Do private post card users pay, through post card postage, for the stationery provided to postal card users? If your answer is anything other than an unqualified no, please explain.
- j. Do private post card users value free stationery given to post card users? If your answer is anything other than an unqualified no, please explain.
- k. Do postcard users receive any benefit from the free stationery provided to postal card users? If your answer is anything other than an unqualified no, please explain.

A. a.-d. Confirmed.

e. I have no way of knowing what the Postal Service intends to do in the future.

f. I agree.

g. No. Please see the response of witness Sherman to USPS/OCA-T100-11(d).

h. The base year attributable cost for postal cards including manufacturing costs is 7.5 cents as shown at USPS-T-5C at 10. The test year attributable cost for postal cards including manufacturing costs is 7.7 cents as shown at USPS-T-5J at 15.

i.-k. Please see witness Sherman's response to USPS/OCA-T100-11(e)-(g).

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-1-11

USPS/OCA-T400-11. Please refer to page 20 lines 3-4 of your testimony.

- a. Is your conclusion that the fee for return receipts should not be raised based on your finding that the classification changes for return receipts only served to improve address hygiene?
- b. Did you consider any other circumstances in which correct address information may prove to be useful?
- c. Do you deny that there have been any other improvements to return receipt service, such as that discussed by witness Needham in her responses to OCA/USPS-T8-6 and OCA/USPS-T8-11?

A. a. No. Please see my testimony at 20, lines 5-14.

b. Not specifically. However, I did consider that the overall improvement in the number of correct addresses which would result from this proposal is negligible.

c. No. However, these other improvements are there regardless of whether or not the Postal Service's proposals for return receipt are adopted.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-12-20

USPS/OCA-T400-12. Please refer to your testimony at page 23 lines 18-21.

- a. Please provide your definition of "implicit cost coverage."
- b. Using the definition in (a), what is the "implicit cost coverage" of:
 - i. stamped envelopes? Please show all calculations with citations to figures.
 - ii. single-sale stamped envelopes? Please show all calculations and provided [sic] citations for figures.
- c. Please provide underlying calculations, with citations for all figures, for the 289 percent cost coverage on line 21.

A. a. "Implicit cost coverage" is a term of art generally used to describe the "revenue divided by cost calculation" for a non-subclass of mail. For example, in the past, carrier route presort third-class mail was frequently said to have an implicit cost coverage of over 200 percent.

b. i-ii. My testimony does not address stamped envelopes, and I do not have the requested information.

c. 19.7 (postal card revenue per piece, USPS-T-5C, p. 10) plus 2 (proposed fee/additional revenue for stamped cards) divided by 7.5 (postal card cost per piece, USPS-T-5C, p. 10).

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-12-20

USPS/OCA-T400-13. Please refer to your testimony at page 24 lines 5-16.

- a. Does the denominator of the fraction that underlies the 263 percent cost coverage figure include all postal card manufacturing costs?
- b. What percentage of the manufacturing costs of postal cards are [sic] in fact included in the attributable costs of postal cards? Please show all calculations.
- c. What percentage of the manufacturing costs of postal cards are [sic] borne by categories other than postal cards? Please show all calculations.

A. a. I believe it does. Witness Needham identified the manufacturing cost of postal cards for FY 1995 in her testimony at page 106 and verified at Tr. 4/1113-14 that these were the same costs shown in USPS-T-5A, page 49. These are the costs underlying the CRA and are the ones used in this calculation. Also see witness Patelunas' response to OCA/USPS-T5-10 at Tr. 2/251 and my response to USPS/OCA-T400-10(h).

b.-c. Since I answered part a. affirmatively, parts b. and c. are inapplicable.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-12-20

USPS/OCA-T400-14. Please refer to your testimony at page 24 lines 16-19.

- a. Please quantify the "manufacturing costs" to which you refer on lines 16-17.
- b. Please show all calculations underlying the 303 percent cost coverage on line 19.

A. a. \$4,353,000.

b. \$33,182 USPS-T5B, p. 3

-4,353 USPS-T5A, p. 49

\$28,829

$\$28,829 / 440,529 =$ USPS-T5C, p. 10 $19.7 / 6.5 = 303\%$

.0654

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-12-20

USPS/OCA-T400-15. Please refer to your testimony at page 29 [sic] lines 15-21. Is your statement that witness Needham applied a "price the market can bear" pricing approach to insured mail fees based solely on witness Needham's response to OCA/USPS-T8-38? If your answer is negative, please cite all sources for your observation.

A. I assume your citation is to page 28, lines 15-21. Yes, if the portions of her testimony and of SSR-LR-109, which are referenced in the interrogatory, are included in what is referred to as "witness Needham's response to OCA/USPS-T8-38." It is not my testimony that witness Needham only applied a "price the market can bear" pricing approach to the development of insured mail fees. She applied other factors, several of which are mentioned in my testimony.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-12-20

USPS/OCA-T400-16. Please refer to your testimony at page 31 line 5.

- a. Please provide your definition of an "indemnity analysis."
- b. What is the citation for your statement that "[n]o indemnity analyses were performed [sic]."?
- c. If your response to (b) is a statement from witness Needham, please provide a quotation of the complete sentence from which your statement is derived, along with the citation.
- d. What is the proportion of paid domestic insurance claims to insurance volumes in FY 1995?

A. a. An example of what I consider an indemnity analysis is USPS-T-22, WP-7, Docket No. R90-1.

b.-c. The citation to this statement is witness Needham's answer to OCA/USPS-T8-30, Tr. 4/1107, quoted at page 28 of my testimony. The complete sentence, which I did not re-quote, states, "No indemnity analyses were performed to arrive at this fee." Witness Lyons did a type of indemnity analysis in this case. I did not mean to imply that this had not been done but to highlight the fact that it was, by necessity, prospective and, therefore, uncertain. I also indicate that information the Postal Service may have regarding claims on higher value registered mail is not an appropriate proxy to use for insured mail because of the difference in security between the two services. When the Postal Service has gained experience with the higher indemnity limits, another analysis should be performed with the actual claims data.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-12-20

CONTINUATION OF ANSWER TO USPS/OCA-T4-16:

d. I have not calculated this figure.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-12-20

USPS/OCA-T400-17. Is your statement at page 32 lines 26-27 based on your claim that no information has been provided by the Postal Service on the maximum paid Express Mail document reconstruction insurance claim for the most recent fiscal year?

A. My statement was based on witness Needham's colloquies with Mr. Popkin at Tr. 4/1270-71 and Chairman Gleiman at Tr. 4/1286.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-12-20

USPS/OCA-T400-18. Please refer to your testimony at page 31 lines 10-12.

- a. Please define "appropriate data by insurance indemnity levels" with specificity.
- b. Did the OCA ask for the information in (a) through discovery? If your response is affirmative, please provide a citation.
- c. How would you go about obtaining "appropriate data by insurance indemnity levels"?
- d. Can this information be ascertained from information on the record? If not, please state the extent to which such information is on the record (with appropriate citations), and identify all information that you claim is not on the record that you would need to derive "appropriate data by insurance indemnity levels."

A. a. "Appropriate data by insurance indemnity levels" is data similar to that shown in Docket No. R90-1, USPS-T-22, WP-7 at 4-5 and Docket No. MC96-3, SSR-LR-109 at 3. I assume that this data is gathered routinely by the Postal Service.

b. Yes. See Tr. 4/1106.

c.-d. See my answer to (a) above and to

USPS/OCA-T400-16.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-12-20

USPS/OCA-T400-19. Please refer to page 29 line 18 to page 30 line 2. Please identify all of the facts that inform your conclusion that "somewhat lower fees might still provide a contribution to institutional costs and allow the Postal Service to improve its competitive position."

A. My statement was based on the fact that the Postal Service's current and proposed fees for insured mail are considerably higher than competitors' fees. The Postal Service has indicated that various measures to improve security and carrier accountability are being studied and may soon be implemented. This should lead to fewer parcels being lost, stolen or misplaced. This, in turn, should cause indemnity claims to be smaller in relation to fee revenues than would be the case without these added security measures. In such a case, the Postal Service would be able to lower the fees, thereby encouraging greater use of postal insurance and mail services. This would benefit the individual "Aunt Minnie" parcel mailer, the large business mailer and the Postal Service.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-12-20

USPS/OCA-T400-20.

- a. Is it your testimony that postal card customers should not incur the same postage and stationery costs as private postcard mailers? If your answer is no, please explain.
- b. As a general principle, is it your view that identifiable costs attributable to a hypothetical product be subsidized by other products that do not share characteristics that contribute to the hypothetical product's attributable costs? Please explain your response.

A. a. Not necessarily. Post card and postal cards pay the same rate of postage. However, stationery costs may differ. Frequently, private post cards have full color pictures and glossy coating on one side. Also, I assume that multi-color printing and varying weight card stock is available. All of these would have a bearing on stationery costs.

b. Per a clarifying telephone call between OCA and Postal Service counsel, I will answer this question substituting "postal cards" for "hypothetical product", "post cards" for "other products" and "free stationery" for "characteristics".

As I show in my testimony at pages 21-25 and state in answer to USPS/OCA-T400-10(h), postal cards are not subsidizing post cards. Attributable cost per piece for postal cards, including stationery and manufacturing costs, is one-half the cost of post cards.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-12-20

CONTINUATION OF ANSWER TO USPS/OCA-T400-20:

Part b. was framed as a hypothetical. However, I am unable to state a general principle concerning this hypothetical because, as I point out in the previous paragraph, the higher processing costs of private cards (in comparison to postal cards) far outweigh the stationery costs of postal cards.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-22-23

USPS/OCA-T400-22. Please refer to page 3 lines 15-18 of your testimony where you state "The proposal concerning return receipt service includes a modest classification fee structure change and a large fee increase for most users. The small increase in cost that the classification change entails cannot justify the fee increase and I urge the Commission to reject it."

- a. Should fee increases only be based on cost increases?
Please explain your answer fully.
- b. Should any criteria other than costs be considered when raising fees? Please identify all such other criteria.
- c. Would you agree that certified mail and return receipt have a high value of service? If your answer is no please explain.

A. a.-b. Cost is one of the nine pricing criteria listed at Section 3622 (b) of the Postal Reorganization Act. Title 39, U.S.C. requires that postal rates and fees be set in accordance with these factors.

c. Please see witness Sherman's answer to USPS/OCA-T100-22(e).

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-22-23

USPS/OCA-T400-23. Please turn to page 25 of your testimony.

- a. Please confirm that postal cards generally have a higher value of service than private cards. If you do not confirm, please explain.
- b. Assume hypothetically that postal card manufacturing costs are not part of postal and postcard subclass attributable costs, but rather are included in the institutional costs of the Postal Service.
 - i. Under this scenario, would you support a proposal to include postal card manufacturing costs in the attributable costs of the postal and postcard subclass in this docket? If not, why not? If yes, why?
 - ii. Under this scenario, would you support a proposal for a stamped card fee as proposed by witness Needham in USPS-T-8? If not, why not? If yes, why?

A. a. I have no information that would allow me to confirm this statement. In any event, postal cards and private cards are not separate subclasses, so comparisons of value of service would not appear to be relevant. Certainly, the high implicit cost coverage for postal cards is not the result of some explicit consideration of value of service.

b. i. Yes. Criterion three of the Act states "the requirement that each class of mail or type of mail service bear the direct and indirect postal costs attributable to that class or type"

ii. No. This scenario is covered at pages 24-25 of my testimony. The implicit cost coverage of postal cards, with manufacturing costs removed from the attributable cost pool

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-22-23

CONTINUATION OF ANSWER TO USPS/OCA-T400-23:

(e.g., under the hypothetical, included in institutional costs),
is over 300 percent. Imposition of a new fee on a category of
mail which currently makes such a large contribution to
institutional costs is unwarranted.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-25-28

USPS/OCA-T400-25. At page 6, lines 9-11 of your testimony, you state that "no fee increase for certified mail should be approved until all of the evidence regarding the costing of this service is fully explained on the record."

- a. What is your understanding of what is included in the certified mail costs total attributable cost contained in USPS-T-5C, page 16. Please explain in detail.
- b. If only certified mail costs are contained in the certified mail total attributable cost contained in USPS-T-5C, page 16, then what further information is necessary to fully explain on the record the costing of certified mail? Please explain in detail.

A. a.-b. I am not sure exactly what is included in the certified mail costs in USPS-T-5C. For a brief period after witness Needham was cross-examined, I thought that some of the confusion which surrounded the costing and pricing of certified mail had been cleared up. However, upon reading transcripts and interrogatory responses in preparation for writing testimony, I became convinced that the record still was muddy. See my testimony at pages 5-11.

Witness Lyons stated that there had been "a major structural chang[e] in the costing" of certified mail. Tr. 2/154. Witness Needham stated that this was not so; there was a change in the cost coverage methodology. What she presented as a pure certified mail cost coverage in her testimony she claimed did not include ancillary service revenues. However, the cost coverage table in USPS-T-22, page 40, in Docket No. R90-1 did not include

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-25-28

CONTINUATION OF ANSWER TO USPS/OCA-T400-25:

ancillary service revenues. Id., n.1. Witness Needham then stated that in that docket (and in previous dockets) there were errors in the attributable costs for certified mail. Tr. 4/1200.

To further complicate this matter, witness Patelunas' response to interrogatory OCA/USPS-13 (Tr. 2/271-72) indicated that the components of volume for certified mail in the FY 1995 CRA (USPS-T-5C, page 16), which are used to calculate the unit attributable costs, were changed from FY 1994. This was due to a Revenue, Pieces and Weight (RPW) reporting change. He states, "The RPW reporting change was for transaction revenues, and hence volumes, associated with return receipts for merchandise. Beginning in FY 1995, the volumes for return receipts for merchandise were included in with Certified Mail." Tr. 2/271-72. (266,431 certified volume plus 22,395 return receipt volume = 288,827 CRA volume.) The result of this is a decline in the unit attributable costs for certified mail from FY 1994.¹ His phraseology in answering this interrogatory seems to indicate a permanent RPW change. The FY 1995 transactions (266,431) shown

¹ This would explain only a portion of the large decline in unit attributable costs for certified mail. See my response to USPS/OCA-T400-27.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-25-28

CONTINUATION OF ANSWER TO USPS/OCA-T400-25:

in USPS-T-1, WP D, page 1, (Lyons workpapers) have merchandise return receipts removed. However, the transactions for both before (289,613) and after rates (277,803) in WP D, which are used to calculate the revenues, are straight from the CRA with no adjustment. See USPS-T-5G and 5J, both at 23. Are merchandise return receipts included? And how would one know? Why should merchandise return receipts be included with certified? If they are included, there is a significant effect on the revenues calculated.

I remain confused. Certified mail fees should not be changed due to the confused state of the record; and this matter should be revisited during the next omnibus rate case.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-25-28

USPS/OCA-T400-26. At page 10, lines 17-19 of your testimony, you state that there has been "no clear and complete explanation of the methodology for developing certified mail costs."

- a. Please explain in detail to what "methodology" you are referring?
- b. Is it your testimony that the certified mail total attributable cost presented in USPS-T-5C, page 16, include [sic] costs other than for certified mail? If so, what other costs do you believe are included? If not, then please explain in detail why you believe there has been "no clear and complete explanation" of certified mail costs in this docket.

A. a.-b. See my answer to USPS/OCA-T400-25.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-25-28

USPS/OCA-400-27. At page 10, line 26-page 11, line 2 of your testimony, you state, "Witness Patelunas also confirmed that the unit costs for certified mail have declined 17.6 percent from FY 1994 to FY 1995."

- a. In making this statement did you review and/or consider witness Patelunas's response to OCA/USPS-13 (Tr. 2/271-77). If not, why not?
 - b. Please confirm that witness Patelunas stated that approximately 39.4 percent of the decline in certified mail unit costs between FY 1994 and FY 1995 is due to an RPW reporting change concerning return receipt for merchandise volumes. If you do not confirm, please explain in detail.
 - c. Assuming as a fact that approximately 39.4 percent of the decline in certified mail unit costs between FY 1994 and FY 1995 is due to the RPW reporting change concerning return receipt for merchandise volumes cited by witness Patelunas, does this portion of the decline in unit attributable costs represent the "declining attributable costs" you refer to on page 11, lines 4-5 of your testimony?
 - d. Is it your testimony that total attributable costs for certified mail decreased between FY 1994 and FY 1995? If so, please explain in detail.
- A. a. Yes.
- b. Confirmed.
- c. Even assuming the RPW reporting change as a fact, the unit cost of certified mail has declined. Witness Patelunas' response to the above-cited interrogatory, OCA/USPS-13(d), shows the following:

(3.1) Mail Processing Direct Labor	-10.6% of total
(3.2) Window Service	-12.3% of total
(7.3) Elemental Load	-21.0% of total
(10.1) Evaluated Routes	-11.6% of total

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-25-28

CONTINUATION OF ANSWER TO USPS/OCA-T400-27:

These are not the result of account and component changes
instituted for the FY 1995 CRA.

d. No.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-25-28

USPS/OCA-T400-28. At page 22, lines 15-17 of your testimony, you state that "the manufacturing costs are already attributed to postal cards and are covered by the 20-cents postage paid by users of postal cards." Please confirm that the manufacturing costs of postal cards are covered by the 20-cent postage paid by users of the postal and post cards subclass as a whole. If you do not confirm, please explain in detail.

A. Not confirmed. See my response to USPS/OCA-T400-13. The total revenues of postal cards more than cover the attributable costs of postal cards (including manufacturing costs). There is thus no basis for saying that any other category (or collection of categories) also covers those costs. One might as well say that every category of mail is covering the costs attributed to postal cards.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-30-34 AND 36

USPS/OCA-T400-30. Please refer to your testimony at page 20 lines 4-5. In reference to the return receipt proposal, you state that you "recommend that the proposed classification change be adopted but without a fee increase."

- a. Please confirm that you support the classification changes proposed by the Postal Service in Classification Schedule SS-16, including section 16.0211. If you cannot confirm, please explain.
- b. Please confirm that section 16.0211 applies to
 - i. return receipt service purchased in conjunction with the products in Classification Schedule SS-16 section 16.020(a)-(e).
 - ii. return receipt for merchandise service, as described in Classification Schedule SS-16 section 16.020(f)-(g).
- c. If you are unable to confirm subpart (b)(i) and/or (b)(ii), please explain.

A. a.-c. Confirmed in part. My testimony omits any consideration of merchandise return receipt. Thus, I endorse only the proposed language of the Postal Service found in Classification Schedule SS-16 section 16.0211, Attachment A, page 16, that would apply to section 16.020 (a)-(e). I do not endorse application of the proposed language of section 16.0211 to (f) and (g) of section 16.020. Rather, the language of the current DMCS section 16.0211¹ would continue to apply to return receipt for merchandise service.

¹ Domestic Mail Classification Schedule, Classification Schedule SS-16, RETURN RECEIPTS, section 16.0211, January 3, 1995, p. 88.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-30-34 AND 36

USPS/OCA-T400-31. Please refer to your response to USPS/OCA-T400-5(b).

- a. Please confirm that witness Foster's Workpaper VIII, page 5, in Docket No. R94-1, shows that certified mail revenue, exclusive of ancillary service revenue, is \$293,220 thousand? If you are unable to confirm, please explain.
- b. Please confirm that the Docket R94-1 after rates revenue for certified mail of \$526,248 thousand, which is cited in your response to 5(b), included ancillary services revenues.
- c. If you are unable to confirm (b) above, please state whether you are capable of analyzing revenues for certified mail in Docket No. R94-1 to determine whether ancillary revenues are present or absent from the \$526,248 thousand figure.
- d. If your response to (c) is that you are not capable of analyzing Docket No. R94-1 revenues for certified mail to detect the presence or absence of ancillary service revenue, please identify the information you claim is lacking in the R94-1 and MC96-3 records to enable you to make such a determination.

A. a. Confirmed.

b. Confirmed, as shown by witness Foster's Workpaper VIII, page 5. However, his testimony at 65 in R94-1 refers to the 172.1-percent cost coverage for certified mail as shown in Exhibit-11F, page 3. Exhibit-11F appears to calculate the 172.1-percent cost coverage from the \$526,248 thousand revenue figure. Please see my testimony at 5-11 and my Exhibit 401 for a more detailed explanation of the confusion that reigns. See also my response to USPS/OCA-T400-25.

c.-d. Not applicable.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-30-34 AND 36

USPS/OCA-T400-32. Please refer to your response to USPS/OCA-T400-8(c). You characterize witness Needham as discussing the value of service of certified mail from the recipient's perspective as being "confined to the high value of this response to the sender." What information, beyond that which witness Needham discussed at page 70 lines 3-15 and page 71 lines 1-2 of USPS-T-8, would you consider in analyzing the value of service to the recipient of certified mail?

A. The fact that delivery of a certified mail piece will capture the recipient's attention does not necessarily indicate the value a recipient will place on receiving the mailpiece. The reality that a recipient must take some kind of action with regard to the delivery of a certified mail piece, (e.g., sign for the mail, decide to reject the mail, or have to make a written request for re-delivery), is likely to affect his/her perception of the value of service of certified mail.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-30-34 AND 36

USPS/OCA-T400-33. Please refer to your response to USPS/OCA-T400-11(c). You state that recent improvements that have been made to return receipts "are there regardless of whether or not the Postal Service's proposals for return receipt are adopted."

- a. Is it your testimony that historical information about a product should not be considered when evaluating a proposal for a change in a rate or fee for that product under 39 U.S.C. § 3622? Please explain your response.
- b. Is it your testimony that service or operational changes that may detract from or enhance the value of service of that product to customers should not inform an analysis of a proposal to change a rate or fee for that product under 39 U.S.C. §§ 3622? Please explain your response.

A. a.-b. No. It generally is appropriate to consider historical information and service or operational changes when changing rate or fee levels. The "print name" block was added to all accountable mail signature forms, not just return receipt, and this occurred nearly two years ago. While this occurrence may be considered, it doesn't seem to be of a magnitude that would justify a fee increase. It also seems highly unlikely that the Postal Service would remove the "print name" block if its proposal for return receipts fails.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-30-34 AND 36

USPS/OCA-T400-34. Please refer to your response to
USPS/OCA-T400-1.

- a. The testimony of other OCA witnesses notwithstanding, is your statement at page 3 lines 8-9 that you "oppose this attempt to raise revenues outside an omnibus rate case" intended to convey your opposition to the Postal Service's proposals in this docket on policy grounds alone, or is it intended to convey your opposition to the Postal Service's proposals in this docket on any other grounds? If the latter, then please identify all such other grounds.
- b. Please explain how witness Sherman's testimony is to be characterized, if it is not "purely policy."
- c. Please explain how witness Thompson's testimony is to be characterized, if it is not "purely policy."

A. a. My reasons for opposing the Postal Service's proposed increase in certified mail fees are set forth in my testimony at: page 5, l. 10-11 and page 3, l. 6-7 and 11-14.

b. I understand that witness Sherman's testimony is founded on economic principles.

c. I understand that witness Thompson's testimony addresses fairness and equity issues raised by Postal Service witnesses, especially witness Lyons. She also shows how the Postal Service has abandoned its previously stated classification reform framework in this case.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-30-34 AND 36

USPS/OCA-T400-36. Please refer to your response to subpart b of USPS/OCA-T400-3(b).

- a. Please confirm that revisions to OCA/USPS-T8-8 were filed only on two separate occasions in this docket.
- b. Please confirm that the sentence in your testimony that begins at page 8 line 15 would be accurate if it were corrected to read as follows:
This interrogatory has been answered once and revised ~~three~~ two times
If you do not confirm, please explain.

- A.
 - a. Confirmed.
 - b. Confirmed.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-30-34 AND 36

USPS/OCA-T400-38. Please refer to your response to
USPS/OCA-T400-17.

- a. Is it your testimony that no information was provided on the maximum paid claim for Express Mail document reconstruction before your testimony was filed? If your response is negative, please identify such information, and provide a description of it.
- b. Is it your testimony that no information was provided on the maximum paid claim for Express Mail document reconstruction after your testimony was filed? If your response is negative, please identify such information, and provide a description of it.

A. a. Objection filed.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-39-48

USPS/OCA-T400-39. Please confirm that the cost coverages you calculate at page 23, lines 19 and 21 of your testimony are based on the Postal Service's cost methodology as reflected in the testimony and exhibits of witness Patelunas, USPS-T-5. If you do not confirm, please explain in detail.

A. Confirmed.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-39-48

USPS/OCA-T400-40. Please confirm that the 20-cent rate for postal and post cards is based on a markup of costs that reflects the Commission's cost methodology as reflected in its recommended decision in Docket No. R94-1 on Reconsideration. If you do not confirm, please explain in detail.

A. Confirmed.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-39-48

USPS/OCA-T400-41. Please confirm that under the Commission's cost methodology as reflected in PRC-LR-1 and 2 in this docket, the difference in the unit cost of postal cards and post cards is less than under the Postal Service's cost methodology. If you do not confirm, please explain in detail.

A. Confirmed.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-39-48

USPS/OCA-T400-42. Please confirm that the 263 percent cost coverage figure for postal cards cited at page 23, line 19 of your testimony becomes 193 percent using the Commission's cost methodology as reflected in PRC-LR-1 and 2 in this docket (19.7 cents revenue/10.23 cents attributable costs in BY 1995). If you do not confirm, please explain in detail.

A. Confirmed.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-39-48

USPS/OCA-T400-43. Please confirm that the 289 percent cost coverage figure for postal cards cited at page 23, line 21 of your testimony becomes 209 percent using the Commission's cost methodology as reflected in PRC-LR-1 and 2 in this docket (22 cents revenue/10.55 cents attributable costs in TY 1996). If you do not confirm, please explain in detail.

A. Confirmed. The cost coverage for private cards also changes, from 124 percent (20.9 cents revenue/16.8 cents attributable costs in BY 1995, USPS-T-5J) to 123 percent (20.9 cents revenue/17.03 cents attributable costs in PRC-LR-2). The fact that the implicit cost coverage of postal cards is somewhat lower under the Commission's costing methodology does not change my conclusion. Postal cards under the Commission's costing methodology still have a very high cost coverage compared to private cards.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-39-48

USPS/OCA-T400-44.

- a. Did you review and/or consider the Commission's cost methodology as set forth in PRC-LR-1 and 2 in preparing any part of your testimony? If so, how did you use the Commission's cost methodology? If not, why not?
- b. Did you review and/or consider the Commission's cost methodology as set forth in PRC-LR-1 and 2 in preparing the stamped card portion of your testimony? If so, how did you use the Commission's cost methodology? If not, why not?
- c. If you did not review and/or consider the Commission's cost methodology as set forth in PRC-LR-1 and 2, why did you need an extension of time from September 25, 1996 to September 30, 1996 to prepare and file your testimony?

A. a.-b. No. The library references were filed at too late a stage in the preparation of my testimony to be reviewed and incorporated.

c. I did not ask for an extension of time to file my testimony, nor was I involved in the OCA's decision to support MMA's motion for an extension of time.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-39-48

USPS/OCA-T400-45.

- a. Please confirm that in Docket No. R94-1, the OCA proposed a 23-cent card rate for both postal and post cards. If you are unable to confirm, please explain.
- b. What cost coverage did the OCA propose for the postal and postcard subclass in Docket No. R94-1? Please show all calculations.
- c. What would have been the implicit cost coverage for postal cards if the OCA proposed rates had been adopted pursuant to Docket No. R94-1? Please show all calculations.
- d. Did the OCA propose that postal cards be priced as a separate subclass in Docket No. R94-1?
- e. Please provide citations to OCA testimony in Docket No. R94-1 in support of the 23-cent card rate for postal and postcards.

- A. a. Confirmed.
- b. 165 percent at OCA-T-500, Table 2. Tr. 16A/7776.
- c. I do not know. All cost coverage recommendations were made at the subclass level. I am not aware that implicit cost coverages for postal and post cards were either discussed or analyzed by OCA witnesses in R94-1.
- d. No. I am not making such a proposal in this docket, either.
- e. OCA-T-500, page 15, Tr. 16A/7777.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-39-48

USPS/OCA-T400-46. Please refer to your response to USPS/OCA-T400-4 and exhibits accompanying that response. For purposes of this interrogatory, the term "enhanced service" refers to non-merchandise return receipt service for which signature, date, and address is requested under the present DMCS, and "basic service" refers to nonmerchandise return receipt service for which only signature and date is requested under the present DMCS.

- a. Confirm that your proposal would result in a reduction in the fee for enhanced service from \$1.50 to \$1.10.
- b. Please refer to the OCA version of USPS-T-1 WP D. Does your estimate of the volume of return receipts account for the reduction in the fee for enhanced service?
- c. If your response to (b) is negative, please provide revised workpapers reflecting the volume effect resulting from the fees you propose.
- d. In general, what would you expect the effect on a product's volume to be when a reduction in the product's fee is proposed?

A. a. Not confirmed. The service to be provided under my proposal will be different than provided under the current fee. Thus the "enhanced service" will not exist. As proposed, an address will not be supplied with every return receipt; it will only be provided when the address has changed. Thus, it is not a reduction in fee since the proposed service is not equivalent to the current service.

b. & d. Yes. In general, one would expect a product's volume to increase when a fee/price is lowered. However, in this case the product that was previously purchased will no longer exist. I would expect that those customers who would have purchased the "enhanced service" will still have need of a return receipt and will purchase the new, similar service in its place.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-39-48

CONTINUATION OF ANSWER TO USPS/OCA-T400-46:

However, I doubt that there is such great, unmet, pent-up demand by customers for return receipts that this proposal will induce them to purchase a significant additional number of return receipts.

c. Not applicable.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-39-48

USPS/OCA-T400-47. Please refer to your response to USPS/OCA-T100-6(c), redirected from witness Sherman.

- a. Assuming that a "well-documented explanation in the record showing exactly the errors committed by Postal Service witnesses Larson and Foster in the two previous omnibus rate cases" is provided in this docket, would you be in favor of a proposal to raise the certified mail fee in this docket if that explanation established that certified mail costs exceeded certified mail revenues (excluding ancillary service revenues) in the TY under rates recommended by the Commission and implemented by the Governors? If your response is negative, please explain why you insist upon such an explanation.
- b. Is it your belief that witness Foster committed errors in Docket No. R94-1 with respect to the certified mail fee proposal? If so, please identify what you believe those errors are.

A. a. Yes. However, to date, an explanation has not been forthcoming. Also, the assumption in the question is contrary to the testimony of witness Needham that the fee for certified mail currently covers attributable costs and will continue to do so in the test year.

b. I have not studied witness Foster's R94-1 testimony and exhibits. However, I note that witness Needham has claimed that there have been problems relating to certified mail going back at least to Docket No. R84-1. Tr. 4/1200.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-39-48

USPS/OCA-T400-48. Please refer to your response to USPS/OCA-T400-7(a).

- a. If a rate or fee proposal is defined as a change in the rate or fee of a rate category (as opposed to a subclass), have you ever submitted testimony in support of a rate or fee proposal for which the cost coverage, or the implicit cost coverage, as the case may be, was less than 100 percent? Please identify all such proposals. You may confine your answer to all Commission proceedings beginning after Docket No. R84-1.
 - b. If a rate or fee proposal is defined as a change to the rate or fee of a rate category (as opposed to a subclass), has the OCA ever submitted testimony in support of a rate or fee proposal for which the cost coverage, or the implicit cost coverage, as the case may be, is less than 100 percent? Please identify all such proposals. You may confine your answer to all Commission proceedings beginning after Docket No. R84-1.
- A.
- a. Not to the best of my recollection.
 - b. See my answer to USPS/OCA-T400-7(b).

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-49-52

USPS/OCA-T400-49. Please refer to your response to USPS/OCA-T400-16(b-c). You state that "information the Postal Service may have regarding claims on higher value registered mail is not an appropriate proxy to use for insured mail because of the difference in security between the two services." Please confirm that the Postal Service did not attempt to use claims data compiled for registered mail as a proxy for estimated claims costs for insured mail in this docket.

A. Confirmed. I did not imply that the Postal Service had used this data as a proxy.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-49-52

USPS/OCA-T400-50. Please refer to your response to USPS/OCA-T400-16(a). Please confirm that Lyons WP A is an example of an indemnity analysis that estimates claims costs for insured mail for the new proposed value increments.

A. Confirmed that page 5 of WP A contains an "Estimation of Increased Indemnity Claims Cost Due to Increased Volume in the \$600.01 to \$5,000 Range based on FY95 Current Claims Cost Analysis Average Value at Current Maximum Step." See also my answer to b.-c. of the cited interrogatory.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-49-52

USPS/OCA-T400-51. Please refer to your response to USPS/OCA-T400-15. Your response indicates that witness Needham applied a "price the market can bear pricing approach" to the new proposed insured mail fees.

- a. Please confirm that at p. 53 lines 10-13 of USPS-T-8, witness Needham stated, "if the [insurance] fee is not consistent with the price the market can bear, customers will use the abundant postal and alternative delivery options which are currently available"
- b. Is it your testimony that witness Needham's statement at page 53 of USPS-T-8 conveys that she applied a "price the market can bear" pricing approach? Please explain your response.
- c. Is it your testimony that witness Needham's statement at page 53 of USPS-T-8 does not leave open the possibility that fees for insured mail could be less than the market can bear? Please explain your response.

A. a. Confirmed.

b. Yes. Please see witness Needham's answer to OCA/USPS-T8-38(b), Tr. 4/1121-22.

c. Anything is possible, however, I am concerned that the proposed fees are too high. See my response to USPS/OCA-T400-19.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-49-52

USPS/OCA-T400-52. Please refer to your response to USPS/OCA-T400-14, where you provide calculations for the implicit cost coverage for postal cards using costs excluding manufacturing costs. How does the cost coverage for the postal and postcard subclass compare to the implicit cost coverage for postal cards when postal cards manufacturing costs are excluded? Please show all calculations.

A. I do not know. I have not made that calculation.

ANSWER OF OCA WITNESS SHERYDA C. COLLINS
TO REDIRECTED INTERROGATORY USPS/OCA-T100-6

USPS/OCA-T100-6. Please refer to page 18 line [sic] 15-18 of your testimony.

- a. Do you contend that witness Needham has not presented accurate proposed certified mail costs and revenues at Tr. 4/1073 for Docket Nos. R90, R94, and MC96-3?
- b. If your answer to (a) is anything but an unqualified no, please identify all inaccurate information at Tr. 4/1073, and explain how one would derive accurate information about costs and revenues for certified mail.
- c. What is your understanding of the after-rates cost coverage for certified mail in Docket Nos. R90 and R94? Please explain in detail.

A. a.-b. I am unable to state with certainty whether the certified mail costs and revenues witness Needham presented (Tr. 4/1073) are accurate. Witness Needham's final answer to interrogatory OCA/USPS-T8-8 (revised answer filed September 9) and witness Lyons' oral explanation on September 9 (Tr. 2/153-54) came so late in the proceeding that I was not able to verify independently their representations. Also, the complete, written explanation requested in OCA's questions submitted in advance of oral cross-examination was not supplied.

c. It is my understanding that in Docket No. R90-1 Postal Service witness Larson testified that the after rates cost coverage for certified mail resulting from fee increases she proposed was 127 percent. USPS-T-22 at 40, Docket No. R90-1.

ANSWER OF OCA WITNESS SHERYDA C. COLLINS
TO REDIRECTED INTERROGATORY USPS/OCA-T100-6

CONTINUATION OF ANSWER TO USPS/OCA-T100-6C:

It is my understanding that in Docket No. R94-1 Postal Service witness Foster testified that the after rates cost coverage for certified mail resulting from fee increases he proposed was 172.1 percent. USPS-T-11 at 65, Docket No. R94-1.

I would like to see a detailed, well-documented explanation in the record showing exactly the errors committed by Postal Service witnesses Larson and Foster in the two previous omnibus rate cases and the manner in which witness Needham has purportedly corrected them in the present proceeding. At a minimum, I believe that Larson's and Foster's workpapers should be presented with the mistakes they committed highlighted and explained. In addition, witness Needham should present her own workpapers plainly laying out her methodology for correcting/avoiding the alleged mistakes committed by earlier witnesses.

1 COMMISSIONER HALEY: Does any participant have
2 additional written cross-examination for Witness Collins?

3 [No response.]

4 COMMISSIONER HALEY: There is an outstanding
5 Postal Service motion to compel responses to USPS-OCA-T14-
6 37 and 38. The OCA objected that these questions served no
7 purpose because they simply asked Witness Collins to confirm
8 statements of Postal Service witnesses. The Postal Service
9 motion explains why minimal effort is involved in providing
10 answers.

11 Ms. Dreifuss, do you wish to respond to that
12 motion?

13 MS. DREIFUSS: I do, Commissioner Haley.

14 I read the Postal Service's motion to compel and I
15 thought I would respond to some of the arguments that Postal
16 Service counsel makes in that motion.

17 With respect to Interrogatory 37, Postal Service
18 argues that having Witness Collins confirm that Witness
19 Needham made a particular statement is not cumulative
20 because the Postal Service has never before asked her this
21 question. But that is not the nature of our objection.

22 Our objection is that there is no purpose in
23 having an OCA witness merely confirm that a statement has
24 been made when it is plainly in the transcript.

25 If Postal Service counsel wants to make a

1 statement of Witness Needham a predicate for further
2 questions today, I would have no problem with that. It
3 merely appeared that it was useless to have Witness Collins
4 confirm that Witness Needham had made a particular statement
5 at a particular transcript site.

6 With respect to Interrogatory 38, the Postal
7 Service argues that it's merely attempting to test Witness
8 Collins's awareness of the filings in this case which, in
9 itself, is a very vague argument. I am not sure that
10 Witness Collins is required to be aware of each and every
11 filing in this case. And, indeed, the interrogatory itself
12 was very, very general.

13 If the Postal Service feels that there is evidence
14 in the record which contradicts Witness Collins's testimony,
15 it is certainly free to provide it on rebuttal evidence or
16 even to bring such materials to Witness Collins's attention
17 today and then ask her questions about it.

18 But we believe it is not -- let me just make one
19 more point. The Postal Service said that the OCA didn't
20 argue any -- any particular length of time that would be
21 required to answer that question and therefore there was no
22 undue burden. However, I think the Postal Service missed
23 the point on burden. The fact is that the burden is on the
24 Postal Service to bring contradictory evidence to the
25 Commission's attention and not the OCA's burden.

1 But, again, if the OCA wishes to cite Witness
2 Collins to portions of the record which contradict her
3 statements, I believe that is appropriate and they may ask
4 her questions along those lines.

5 COMMISSIONER HALEY: Thank you, Ms. Dreifuss. We
6 appreciate your comments but we find the interrogatories
7 rather unobjectionable.

8 It is permissible for the Postal Service to test
9 Witness Collins's knowledge of the record and, in light of
10 the information provided in the Postal Service pleading, it
11 appears that preparing an answer will not be burdensome. I
12 will allow the Postal Service to ask those questions orally
13 today.

14 The United States Postal Service was the only
15 participant to --

16 MR. ALVERNO: Excuse me, Mr. Acting Presiding
17 Officer, if we could have responses in writing, that would
18 aid the Postal Service because we would just like the
19 opportunity to conduct some followup on those -- on those
20 questions. So while we may actually reach those topics
21 today in the hearing, we would still prefer to have written
22 answers in the event that we have subsequent questions that
23 arise.

24 MS. DREIFUSS: Commissioner Haley?

25 COMMISSIONER HALEY: Go ahead.

1 MS. DREIFUSS: I really do feel it is
2 inappropriate to have the witness answer in writing a
3 question as simple as "can you confirm that Witness Needham
4 made a particular statement?" There would be no followup to
5 such a question. If she confirmed it, you would have
6 nothing more to ask her. That would put it at an end.

7 If counsel wants to ask Witness Collins about that
8 statement today, I said before I don't have a problem with
9 that. But having several iterations of this question in
10 writing really seems to go way beyond what's called for.

11 COMMISSIONER HALEY: Well, that is certainly our
12 position at this point.

13 We will allow you, the Postal Service, to ask your
14 questions orally today and I think that should end it.

15 MR. ALVERNO: Could I then move for an opportunity
16 to conduct written followup after today's hearing?

17 MS. DREIFUSS: Commissioner Haley? I would
18 opposed such a request. It is not convention to have the
19 Postal Service follow up in writing on oral questions. In
20 fact, I believe it is unprecedented. I have never heard
21 such a request made and we vehemently oppose it.

22 COMMISSIONER HALEY: Well, certainly, I was going
23 to say that he could -- he can always make a motion but it
24 doesn't mean that we are going to, you know, permit it. But
25 we want you to ask your questions. We have certainly

1 overruled and are permitting you to ask your questions
2 today. It would appear that that would be sufficient. Are
3 you prepared -- we are prepared to have you begin your
4 questions.

5 MR. ALVERNO: Yes. Thank you, Mr. Acting
6 Presiding Officer.

7 COMMISSIONER HALEY: Yes.

8 CROSS EXAMINATION

9 BY MR. ALVERNO:

10 Q Good afternoon, Ms. Collins. I am Anthony Alverno
11 and I will be conducting cross examination on behalf of
12 United States Postal Service.

13 A Good afternoon.

14 Q Could you please turn to your response to
15 interrogatory number 30 from the Postal Service.

16 A I have it.

17 Q Okay. I'm going to ask you some questions about
18 this interrogatory, and in my questions, I'm going to define
19 some terms, and so perhaps it would be useful to define them
20 up front.

21 The first is I may use the term basic service, and
22 that refers to return receipt service that, under the
23 present DMCS, provides the signature and date.

24 I'm also going to refer to enhanced service, which
25 refers to return receipt service, again under the present

1 domestic mail classification schedule, that provides
2 signature, date and address.

3 Do you understand those two terms?

4 A I believe so.

5 Q Now, you state in your response to interrogatory
6 number 30 that you are in support of classification changes
7 for non-merchandise return receipts; isn't that correct?

8 A Yes.

9 Q And the proposed change by the Postal Service to
10 non-merchandise return receipts would provide the date,
11 signature and address if different; isn't that correct?

12 A I'm sorry, would you repeat that?

13 Q Certainly. The proposed change to the
14 classification for non-merchandise return receipts would
15 provide the sender with the date, signature and address if
16 different; is that correct?

17 A Correct.

18 Q And do you agree that that proposed classification
19 change that is for non-merchandise return receipts is
20 consistent with the classification criteria in Section 3623
21 of the Act?

22 A Yes.

23 Q And so if the proposal for non-merchandise return
24 receipts is implemented, today's customer of basic return
25 receipt service would receive address information, which is

1 currently not provided under today's basic service; is that
2 correct?

3 A If the address has changed.

4 Q Well, will a non-merchandise return receipt
5 customer always receive some information about an address
6 every time the service is purchased?

7 A If he does not receive a different address, I
8 guess he can assume that the address is the same.

9 Q So in the instance where there is no address
10 information on the return receipt, the sender can acquire
11 some information about the address which was placed on the
12 piece bearing the return receipt; is that correct?

13 A He can suppose that the person has not moved.

14 Q Or that his address information that he used to
15 address the piece was correct.

16 A Yes.

17 Q And is it fair to say that the new proposed
18 service for non-merchandise return receipts would be viewed
19 as an enhancement to today's basic return receipt service?

20 A I consider it a slight enhancement, yes.

21 COMMISSIONER HALEY: If you will, please, would
22 you put the microphone a little closer, Ms. Collins. Thank
23 you.

24 BY MR. ALVERNO:

25 Q And is it also fair to say that the new proposed

1 service for non-merchandise return receipts would be more
2 analogous to today's enhanced service than today's basic
3 service?

4 A I don't think so.

5 Q Well, earlier you told me that whether or not
6 --under the proposal, whether or not a customer actually
7 receives the address information on the return receipt, the
8 customer will acquire some information about an address, and
9 isn't that more similar to the enhanced service which
10 provides address information in every instance to today's
11 enhanced return receipt customers?

12 A I think you're trying to make this more esoteric
13 than it is. I don't think that most people are looking to
14 get a new address.

15 Q I didn't ask what customers were asking for. My
16 question simply is, operationally, does the proposed return
17 receipt service for non-merchandise return receipts resemble
18 the enhanced service more than it resembles the basic
19 service.

20 A No, because most of the return receipts will not
21 have a new address on it.

22 Q But again, earlier you said to me that the sender
23 acquires information about the address to which the piece
24 was delivered whether or not there is address information on
25 the piece. So there is an address element in every return

1 receipt; isn't that correct?

2 MS. DREIFUSS: Commissioner Haley, I think the
3 witness did answer that question. She answered that exact
4 question just a few moments ago. So I don't really see why
5 it would need to be repeated. I wonder if counsel could
6 maybe develop a question from that answer but not repeat the
7 same question.

8 COMMISSIONER HALEY: I thought it was answered.
9 Do you think it was not answered?

10 MR. ALVERNO: Well, earlier she gave a response
11 based on what customers want, and later she gave a response
12 with an explanation that seemed inconsistent with her prior
13 response.

14 COMMISSIONER HALEY: Okay.

15 MR. ALVERNO: So I'm trying to explore the
16 inconsistency that I do see in the responses.

17 COMMISSIONER HALEY: All right.

18 THE WITNESS: Would you please explain my
19 inconsistencies so I can address them better?

20 MR. ALVERNO: Certainly.

21 BY MR. ALVERNO:

22 Q On the one hand, you have indicated that address
23 information under the proposed return receipt service would
24 be provided in all instances whether or not there is an
25 address on the piece, okay?

1 MS. DREIFUSS: Commissioner Haley, I'm sorry to
2 interrupt again. I don't think -- I think he really has
3 distorted her answer a bit. He's saying that she said it
4 would be provided. Now, I thought she had indicated that it
5 might be inferred or -- inferred from lack of information,
6 but not necessarily provided.

7 COMMISSIONER HALEY: Let me ask now, counsel,
8 again to not comment; ask questions and then get just her
9 response, if you will.

10 MR. ALVERNO: Okay.

11 BY MR. ALVERNO:

12 Q Earlier you indicated that information about
13 addresses would be conveyed somehow to the sender, and in
14 that instance, the sender will have address information just
15 like today's customer of enhanced return receipts; isn't
16 that correct?

17 A Most people today for the service that you're
18 speaking of do not wish and do not purchase the option of
19 getting an address. They will get a changed address a very
20 small amount of the time. I don't believe that most people
21 would consider this a very large enhancement or a very
22 important part of the service.

23 Q But I asked -- I didn't ask for the enhancement.
24 We went through that routine already. What I asked for was
25 whether or not it would be more analogous -- the proposed

1 service would be more analogous to the enhanced service by
2 virtue of the fact that there is address information that
3 travels with every piece.

4 MS. DREIFUSS: Commissioner Haley, again, it's the
5 same question that was asked just a few moments ago, and I
6 do --

7 COMMISSIONER HALEY: Well --

8 MS. DREIFUSS: -- remember the answer, in fact.
9 She answered, "I don't think so."

10 MR. ALVERNO: She really has not answered the
11 question.

12 COMMISSIONER HALEY: I would like her to answer it
13 again.

14 Do you understand the question now?

15 THE WITNESS: There will be --

16 COMMISSIONER HALEY: You do understand the
17 question that he's asking?

18 THE WITNESS: I think so.

19 COMMISSIONER HALEY: Okay.

20 THE WITNESS: There will be a slight enhancement
21 in the fact that if people ever become aware of it, they
22 will only get an address when there is an address change in
23 very, very few instances, ^{something} ~~somewhat~~ like one percent. Most
24 people I don't think will be particularly aware of this, and
25 so far they haven't cared very much about it.

1 COMMISSIONER HALEY: Okay.

2 BY MR. ALVERNO:

3 Q But my question is, what is it more analogous to?
4 What is the new proposed service more analogous to? Is it
5 more analogous to the enhanced service --

6 A It can't be more analogous to the enhanced
7 service. Every enhanced service that you purchase requires
8 somebody to stand there and look at the address and write it
9 down. They won't have to do that anymore. It takes much
10 less time when you get it back. I really don't know that
11 that many people look at it real carefully.

12 Q So you're looking at this from the recipient's
13 perspective and the delivery employee's perspective; isn't
14 that correct?

15 A Recipient?

16 Q The recipient of a mail piece with a return
17 receipt. In other words, you're looking at the operation at
18 the end of the line when the piece is actually delivered to
19 the recipient.

20 A No, I'm not.

21 Q So are you suggesting that from the sender's
22 perspective, that the service is also not analogous -- the
23 proposed service is not analogous to the enhanced service?

24 A It's analogous to both services, but they're not
25 going to get an address very many times. Right now, getting

1 an address every time is useless most of the time. I doubt
2 that if people really thought about it, they would purchase
3 it.

4 Q What's your basis for that statement, that people
5 who are purchasing the address option aren't finding it
6 useful or it has no utility?

7 A I don't have any real support on this, but I
8 believe that most people would pick that option on the spur
9 of the moment and not really think about it.

10 Q What's that belief based on?

11 A The few times I've used the service.

12 Q How many times have you used it in the last year?

13 A Twice.

14 Q Let's move on. Let's consider the proposal by the
15 Postal Service for merchandise return receipts. The Postal
16 --

17 A My testimony does not address that. I was not
18 asked to look at it.

19 Q Okay. In your response to USPS-OCA-T400-S30, the
20 last sentence there indicates that the language of the
21 current DMCS Section 16.0211 would continue to apply to
22 return receipt for merchandise service. I would like to
23 explore that a little bit.

24 A Could you provide me with copies? I unfortunately
25 didn't bring those.

1 Q Of USPS-OCA-T400-30?

2 A No, of the DMCS section.

3 Q Okay.

4 MR. ALVERNO: Commissioner Haley, I intend to
5 approach the witness with a copy of the Code of Federal
6 Regulations dated July 1st, 1995.

7 COMMISSIONER HALEY: I believe she has asked for
8 that, right.

9 MR. ALVERNO: Yes.

10 COMMISSIONER HALEY: Yes.

11 MR. ALVERNO: May I approach the witness, please?

12 COMMISSIONER HALEY: Yes.

13 [Document proffered to witness.]

14 THE WITNESS: I'm sorry. I have read it, but it
15 goes away fast.

16 [Pause.]

17 BY MR. ALVERNO:

18 Q Now have you had a chance to review it?

19 A Yes.

20 Q Okay. Now the Postal Service is proposing that
21 merchandise return receipts provide the signature date and
22 addresses, if different, for merchandise return receipts,
23 just as they are for non-merchandise return receipts, isn't
24 that correct?

25 A Yes.

1 Q And in your response to USPS/OCA T400-30, you
2 stated that your testimony omits consideration of
3 merchandise return receipt, correct?

4 A Yes.

5 Q And is it fair to say that your testimony does not
6 apply to the Postal Service's proposal to change the
7 classification schedule for merchandise return receipt?

8 A Yes.

9 Q And is it also fair to say that your written
10 testimony does not apply to the Postal Service's proposal to
11 raise the fee for basic merchandise return receipt by 45
12 cents from \$1.20 to \$1.65 for the proposed date, signature
13 and address if different option?

14 A No, it does not address that.

15 Q And would it be fair to say that the
16 classification changes proposed for merchandise return
17 receipts would serve the objective of improving address
18 hygiene?

19 A It could. I might forestall some of these
20 questions.

21 My testimony specifically excluded it. I could
22 see reasons to extend it to the merchandise service.

23 Merchandise service does seem to use the address
24 option more frequently than the other option and it could be
25 explored in other ways.

1 Q Are you voicing -- strike that.

2 Do you advocate that the Commission recommend the
3 proposed classification changes for merchandise return
4 receipts?

5 A I did not address it specifically, however I could
6 see a parallel in reading the testimony of the Postal
7 Service.

8 Q Okay, and would you also -- would you also
9 recommend that the Commission recommend the proposed fee of
10 \$1.65 for merchandise return receipts?

11 A I do not address that.

12 Q Are you willing to offer an opinion on that right
13 now?

14 A No.

15 Q Would you agree that the classification changes
16 proposed by the Postal Service for merchandise return
17 receipts would aid in simplifying the fee schedule?

18 A Probably.

19 Q And would you agree that the proposed
20 classification changes for merchandise return receipts would
21 provide an administrative benefit to the Postal Service
22 either through simplifying the delivery operation or
23 simplifying retail functions?

24 MS. DREIFUSS: Commissioner Haley, I thought the
25 purposes of the Postal Service's cross examination today was

1 supposed to be on witness Collins' testimony and her
2 interrogatory responses.

3 Mr. Alverno was going way outside anything she's
4 testified to because she explicitly states and he has
5 acknowledged that her testimony admits -- omits any
6 consideration of merchandise return receipt.

7 COMMISSIONER HALEY: Yes.

8 MS. DREIFUSS: And I think it is improper to keep
9 asking questions about this.

10 MR. ALVERNO: I beg to differ in that witness
11 Collins has, as I interpreted her response to T400-30,
12 witness Collins does say that the present language would
13 continue to apply to merchandise return receipts, so as I
14 read that response I thought that witness Collins was
15 indicating that the status quo should remain for merchandise
16 return receipts.

17 THE WITNESS: That is correct.

18 MR. ALVERNO: But earlier, not too long ago at
19 least, witness Collins seemed to indicate that there were
20 some good reasons for the classification changes that were
21 proposed by the Postal Service for merchandise return
22 receipts.

23 Consequently, I am exploring exactly what witness
24 Collins was trying to say earlier and also what her response
25 means.

1 COMMISSIONER HALEY: Okay --

2 MS. DREIFUSS: Commissioner Haley?

3 COMMISSIONER HALEY: Please.

4 MS. DREIFUSS: Actually, Mr. Alverno has really
5 pointed out an omission on my part.

6 I really should have objected earlier but I hadn't
7 realized that we would be going through such a long series
8 of questions about merchandise return.

9 I really should have objected to the very first
10 one.

11 She omits consideration of merchandise return
12 receipt and there really -- the purpose of the cross
13 examination today is not to explore new uncharted waters
14 that are not her testimony.

15 COMMISSIONER HALEY: Indeed. I agree. I think
16 the witness understands where we are now and I would like to
17 let her respond.

18 THE WITNESS: Well, my testimony does not address
19 merchandise return receipt and --

20 MR. ALVERNO: Okay. The question was about would
21 the classification changes for merchandise return receipts
22 aid the Postal Service or provide administrative benefit to
23 the Postal Service either in the delivery ^{end} ~~and~~ as far as
24 simplifying procedures or at the retail end as far as retail
25 clerks having to explain the return receipt product to

1 customers.

2 MS. DREIFUSS: Commissioner Haley, the reason I
3 think it is unfair to allow Mr. Alverno to continue in this
4 manner is that she has never had a chance to thoughtfully
5 examine this whole issue and giving answers off the top of
6 her head after listening to a question for just a second are
7 really pointless.

8 COMMISSIONER HALEY: Yes.

9 MR. ALVERNO: This is the last question, and quite
10 frankly the proposal is almost identical to the one that
11 witness Collins is opposing in part for non-merchandise
12 return receipts.

13 COMMISSIONER HALEY: Let me -- you said this is
14 your last question?

15 MR. ALVERNO: This is the last one.

16 COMMISSIONER HALEY: Let him ask his last question
17 and we'll see. All right.

18 THE WITNESS: I disagree with your
19 characterization --

20 BY MR. ALVERNO:

21 Q Of what?

22 A Just total opposition.

23 Q I'm sorry?

24 A I said I disagree with your characterization of
25 total opposition.

1 Q I'm sorry, total opposition to the fee proposal
2 but to classification changes you have voiced approval or
3 you have indicated your support for those classification
4 changes so I do stand corrected. I apologize.

5 COMMISSIONER HALEY: Okay.

6 BY MR. ALVERNO:

7 Q Now the question is, would the proposed
8 classification change for merchandise return receipt provide
9 an administrative benefit to the Postal Service either at
10 the delivery end as far as simplifying procedures or at the
11 retail end as far as retail clerks having to explain the
12 product to customers?

13 A I have not addressed that. That's for the
14 Commission to decide.

15 Q Could you please turn to your testimony at page
16 32, lines 9 to 11 -- excuse me, lines 8 to 11.

17 In discussing information about Express Mail
18 document reconstruction insurance claims, you state the only
19 figures available are the sum of claims paid for all
20 document reconstruction and the total number of claims
21 settled; is that correct?

22 A Yes.

23 Q Okay, and I would ask that -- excuse me.

24 A Could I ask a clarifying question? Was this the
25 objection that was --

1 Q yes, this does relate to -- this subject matter
2 does relate to the objection but I haven't asked that
3 question.

4 A Which I was requested to respond to?

5 Q Yes.

6 A Okay, fine.

7 Q Ms. Collins, have you had a chance to review
8 Witness Needham's response to DBP-USPS-T8-27, which was
9 filed on September 19, 1996?

10 A Just a moment.

11 Is this in relation to your question number 38?

12 Q Yes.

13 A Okay. Yes.

14 Q Your response to the question is, yes, you
15 reviewed it?

16 A Yes.

17 Q And does that response contain information about
18 the maximum paid documentation reconstruction claim in FY
19 1995?

20 A Yes, there were several interrogatories that
21 Witness Needham answered responding to Mr. Popkin regarding
22 the document reconstruction of Express Mail.

23 Q And one of the others would include DBP-USPS-T8-
24 41, which was filed on October 18, 1996?

25 A Yes, yes.

1 Q Is that a yes?

2 A Yes.

3 Q And the existence of both of those responses is
4 inconsistent with your testimony, isn't it?

5 A Well, they were filed after my testimony, yes.

6 Q What day was your testimony filed?

7 A The 30th, I believe.

8 Q Of September?

9 A Yes.

10 Q And do you know what date DBP-USPS-T8-27 was
11 filed?

12 A No.

13 Q Would you accept subject to check that it was
14 filed on September 19, 1996?

15 A Subject to check.

16 Q So, again, I repeat my question. Your testimony
17 at page 32 is not consistent with the state of filings at
18 the time your testimony was filed, isn't that correct?

19 A Mr. Popkin, as Ms. Needham knows, filed a great
20 many interrogatories. It took Herculean effort to read
21 them, let alone answer them, and I applaud her efforts. I
22 had not read them.

23 Subsequent to that, and subsequent to your
24 interrogatories, I had occasion to peruse the record and I
25 found them and there is, indeed, information on the record

1 regarding Express Mail reconstruction, document
2 reconstruction, and I believe that it reinforces the point
3 that is made in my testimony that \$500 is perhaps too low a
4 limit to go to from 500,000.

5 Q And on what basis do you draw that conclusion?

6 A Well, I believe at least one of the claims filed
7 in 1995 was \$15,000.

8 I just urged caution that that was a very large
9 jump from 500,000 to 500. I think this shows that my
10 caution was indeed something to be thought about.

11 Q Okay. But earlier you said insurance was going to
12 be reduced from \$500,000 to 500 -- isn't that incorrect? I
13 believe it's \$50,000 to \$500, correct?

14 A I might have misspoke. I'm sorry.

15 Q Okay. And the basis for your statement is
16 essentially the one \$15,000 claim that was paid in 1995?

17 A Yes, there was one. There were several others.

18 Q On that basis, you --

19 A I did not look at those before I wrote my
20 testimony. I already said that. I just think that the
21 subsequent knowledge reinforces my previous knowledge.

22 Q Could you please turn to your response to USPS-
23 OCA-T400-22C.

24 A Interrogatory 24C?

25 Q Excuse me. 22C.

1 A I have it.

2 Q You were asked the question, would you agree that
3 certified mail and return receipt have a high value of
4 service. And in your response to that interrogatory, you
5 said, please see Witness Sherman's answer to USPS-OCA-T100-
6 22E.

7 A Correct.

8 Q Now earlier, I gave your counsel a copy of that
9 response from Witness Sherman to interrogatory T100-22E. Do
10 you have that copy with you?

11 A Yes.

12 Q Could you take it out, please.

13 A Yes.

14 MS. DREIFUSS: Commissioner Haley, this is just a
15 point of clarification. It would aid me and perhaps the
16 record. The copy that counsel gave me earlier doesn't -- I
17 don't think contains the question; just the answer. It
18 would be helpful to me if you could read the question that
19 elicited the response to E. And I think it would be helpful
20 to the witness also.

21 COMMISSIONER HALEY: And to the officer. Thank
22 you.

23 MR. ALVERNO: 22E, the question 22E from the
24 Postal Service to OCA Witness Sherman reads as follows:

25 Please confirm that if a firm can raise its rates

1 without concern, quote, "because its rivals cannot offer
2 customers reasonable alternatives," unquote, the service in
3 question must have a, quote, "high value of service," end
4 quote, to its customers as that term is used in Postal
5 ratemaking. If you cannot confirm, please explain fully.

6 The response given by Witness Sherman to that
7 interrogatory which was filed on October 28th, 1996 reads as
8 follows:

9 Not confirmed. To be able to raise price without
10 concern for rivals' actions would indicate a value of
11 service above some minimal level, but many Postal services
12 may occupy that value-of-service position. Just how great
13 is the value of one service relative to others would be one
14 of the questions raised about all rate increases in an
15 omnibus rate case.

16 I do have copies if anybody else would like them.

17 COMMISSIONER HALEY: Very well. We should --

18 MR. ALVERNO: Yes.

19 COMMISSIONER HALEY: Thank you.

20 MR. ALVERNO: And I would also note for the record
21 that the Postal Service has designated this interrogatory.

22 COMMISSIONER HALEY: It has designated this one.

23 MR. ALVERNO: Yes.

24 COMMISSIONER HALEY: Yes. Right. Very good.

25 BY MR. ALVERNO:

1 Q Ms. Collins, the answer to 22E by Witness Sherman
2 embodies your response to 22C of your -- of T400-22C; isn't
3 that correct?

4 A Yes.

5 Q Does the entire response apply? Are you only
6 quoting a specific portion?

7 A I think the entire response applies. I think the
8 latter part is more important.

9 Q The part reads "Just how great is the value of
10 service relative to others would be one of the questions
11 raised about all rate increase in an omnibus rate case."

12 A Correct.

13 Q I guess it should be "increases," but it reads
14 "increase" in my copy.

15 A Yes.

16 Q So -- well, isn't it true, Ms. Collins, that in
17 evaluating value of service, various qualitative factors can
18 be considered?

19 A What do you mean by qualitative figures?

20 Q Things like collection, mode of transportation,
21 priority of delivery.

22 A Yes.

23 Q And can you think of some examples of qualitative
24 factors that can be used to evaluate the value of service of
25 certified mail?

1 [Pause.]

2 A I'm sorry, the word just escaped me. You must
3 sign for certified mail. It is available only for first
4 class or insured or priority mail, I believe. You must
5 purchase another service before you buy certified mail.

6 Q Are you through?

7 A Yes.

8 Q What are some examples of the qualitative factors
9 that can be used to evaluate the value of service of return
10 receipts?

11 A The same ones for certified, that you must
12 purchase a little bit more in order to purchase certified --
13 I mean return receipt. You can't just buy a return receipt
14 if you haven't used a first-class mail piece with certified.

15 Q You're talking about non-merchandise return
16 receipts, right?

17 A Correct. As we know, my testimony does not
18 address merchandise return receipt.

19 Q At what qualitative -- what qualitative
20 information would be available in an omnibus rate case that
21 you claim is not available in this docket that would allow
22 you to draw conclusions about the value of service of
23 certified mail and return receipts?

24 MS. DREIFUSS: Commissioner Haley, it occurs to me
25 that it might be better to pursue this matter with Witness

1 Sherman when he takes the stand later in the week since
2 Witness Collins obviously is relying on Witness Sherman's --

3 MR. ALVERNO: No, I beg to differ on this. In
4 fact, the interrogatory was not redirected to Witness
5 Sherman; Witness Collins adopted it as her own. So I
6 believe Witness Collins is competent to testify on this
7 subject and I would like to know why she can't offer any
8 opinions on certified mail and return receipts.

9 MS. DREIFUSS: Commissioner Haley, I don't think
10 she said she would not offer an opinion. I --

11 MR. ALVERNO: That's what the response says.

12 MS. DREIFUSS: It says that she looked at Witness
13 Sherman's answer and she thought that that expressed the
14 reasons best for not considering value of service for
15 certified mail and return receipt in this proceeding.

16 MR. ALVERNO: And I intend to show that that is
17 nonsense.

18 COMMISSIONER HALEY: My goodness.

19 MS. DREIFUSS: Well --

20 COMMISSIONER HALEY: All right. I'll permit the
21 witness to answer, Ms. Dreifuss.

22 THE WITNESS: I believe Witness Sherman's answer
23 states that value of service is above some minimal level. I
24 think that he's talking about in this kind of a case where
25 all the players are not in play, that it is difficult to

1 determine each level of the value of service; that it is
2 easier to do when you have everybody in the game. And when
3 you're just looking at one in a vacuum, it -- you could say
4 it has a very high level of service, but it may be a high
5 level of service in regard to what? What else?

6 I defer to Witness Sherman. He'll be here on
7 Wednesday.

8 BY MR. ALVERNO:

9 Q Well, to what other services would you like to
10 compare Certified Mail to in order to draw a conclusion
11 about its value of service?

12 Would registry be one?

13 A Pardon me?

14 Q Would registry be an example of one that you would
15 like to compare it to?

16 A Certified Mail was cut off from registered service
17 a number of years ago to be a lesser service.

18 Q Okay, is that an example to which you would like
19 to draw conclusions --

20 A It is one that you could compare it to, yes.

21 Q Okay, and is there testimony in the record on the
22 value of service of Registered Mail in this docket?

23 A Yes, there is. Well, I have not really addressed
24 Registered Mail. I have read the testimony but it was quite
25 a while ago.

1 Q Are you representing that there is no evidence on
2 the record of the value of service of Registered Mail or is
3 there evidence in the record about the value of service of
4 Registered Mail?

5 A I am representing that I have not testified on
6 Registered Mail.

7 Q So you --

8 A There is evidence on some sort on the record. I
9 am not testifying about Registered Mail nor its value of
10 service.

11 Q So on the one hand you say that you can't offer an
12 opinion on the value of service of Certified Mail because
13 you claim that that must be done in an omnibus rate case.
14 On the other hand, you say that you want to be able to draw
15 conclusions to other products such as Registered Mail and
16 there is testimony in the record concerning Registered Mail
17 and so, yet, you are unable to draw a conclusion? Is that
18 still your response?

19 MS. DREIFUSS: Commissioner Haley, it is going to
20 be very difficult for Witness Collins to answer that
21 question because it contains so many distortions of her
22 position.

23 MR. ALVERNO: What if --

24 COMMISSIONER HALEY: Just a minute.

25 MS. DREIFUSS: She has merely said, when asked

1 that question -- I think ^{we'd}~~we~~ better start with the Postal
2 Service's original question to her: "Would you agree that
3 Certified Mail and Return Receipt have a high value of
4 service?"

5 And she -- her response is, "please see Witness
6 Sherman's answer." So we must then go to Witness Sherman's
7 answer. And Witness Sherman -- probably the most relevant
8 portion of Witness Sherman's answer is just how great is the
9 value of one service relative to others ^{would}~~with~~ be one of the
10 questions raised about all rate increases -- I changed it a
11 bit, I added an "s" to "increases" that wasn't there -- in
12 an omnibus rate case.

13 And I believe that's -- those are basically the
14 answers she is giving and, as I said before, if Mr. Alverno
15 needs to question Witness Sherman about what he meant by
16 that, I think it is best to wait for his appearance. But,
17 again, I disagree with the question and object to the
18 question that counsel just asked because he distorted
19 Witness Collins's statement. She didn't say any of the
20 things that he ascribed to her.

21 COMMISSIONER HALEY: I would like again to -- I
22 understand you.

23 What is your question now, Mr. Alverno?

24 MR. ALVERNO: I am puzzled by --

25 COMMISSIONER HALEY: I am too.

1 MR. ALVERNO: -- Witness Collins response because
2 it seems like she is claiming that --

3 COMMISSIONER HALEY: What is your question now?

4 MR. ALVERNO: Yes.

5 Is it still her testimony that she needs to have
6 information in an omnibus rate case that appears to be
7 present in this case.

8 MS. DREIFUSS: What does that have to do with
9 value of service right now?

10 BY MR. ALVERNO:

11 Q Earlier we discussed -- we discussed the presence
12 of testimony on value of service of Registered Mail. And
13 you cited Registered Mail as an example of a service to
14 which you would like to compare the value of service of
15 Certified Mail.

16 A I said that you could use to make a comparison. I
17 could say that Certified Mail has a high value of service
18 and, in a vacuum, that means nothing. You have to know how
19 high is high. You've got to have something to compare it
20 to.

21 Q And --

22 A And we are saying that you need to look at the
23 other services that go into play when you use Certified
24 Mail. Certified Mail does not exist in a vacuum; it is used
25 with a number of different other services and the price of

1 those services come into play also.

2 Q And how do those --

3 A I can't tell you how high it is in this game -- I
4 mean in this docket.

5 Q And to what other services would you like to
6 compare return receipts in order to draw a conclusion about
7 its value of service?

8 A I think return receipt is in a similar situation.

9 MS. DREIFUSS: Commissioner Haley, I think it is
10 unfair to ask her what she would compare it to when it's
11 clearly her position that it should not be compared in this
12 proceeding. She has not had a chance to think about what
13 she would do in an omnibus rate case.

14 MR. ALVERNO: This is outrageous. No --

15 MS. DREIFUSS: And making all of the appropriate
16 comparisons so it is very inappropriate to be asking her
17 that today. It is her position that it should not be
18 compared in this proceeding.

19 COMMISSIONER HALEY: Well, I think she has stated
20 a position, her position.

21 Mr. Alverno, would you ask another question if you
22 have another one that you want to pose now.

23 MR. ALVERNO: I'll move on.

24 COMMISSIONER HALEY: All right.

25 BY MR. ALVERNO:

1 Q Let's turn to your response to USPS-OCA-T400-47.

2 A Yes, I have it.

3 Q Now, you state that you would be in favor of a
4 proposal to raise a Certified Mail fee in this docket if an
5 explanation were provided on the record showing that
6 Certified Mail costs exceeded Certified Mail revenues in the
7 test year; is that correct?

8 A Yes.

9 Q By "test year," you are referring to the test year
10 in those prior dockets or in this docket?

11 A In this docket. I assume in the other ones too.
12 I don't generally support rates that are below cost.

13 Q For any given product, if costs exceed revenues,
14 then the cost of providing the service must be cross-
15 subsidized --

16 A Excuse me. Could you slow down, please?

17 Q Certainly.

18 For any given product, if costs exceed revenues,
19 then isn't it true that the cost of providing the service
20 must be cross-subsidized by other products?

21 A Yes, if costs exceed revenues, somebody else is
22 paying for a part of a provision of service.

23 Q That is, a customer of the firm that offers the *product.*

24 A Or the firm in general. It may be their overhead,
25 it may be their profit.

1 Q Okay, and as a general principle, would you agree
2 that the Commission can take historical information about a
3 product's cost coverage into account in determining the rate
4 for Certified Mail in this docket?

5 A Historic information about a rate in setting a
6 rate for this docket?

7 Q No, historical information about a product's cost
8 coverage, can the Commission take that historical
9 information into account when determining the rate for
10 Certified Mail in this docket?

11 A The Commission can do many things. I -- I don't
12 know whether it would consider it relevant on what its cost
13 coverage was in the past as long as the cost coverage is
14 acceptable to it in the present case.

15 Q Let's then turn to page 7, line 20, of your
16 testimony.

17 I am reading now from page 7, line 20, of your
18 testimony. "A complete explanation of what was done in the
19 past, why it was in error and exactly how the methodology
20 has changed has not been forthcoming."

21 That is your criticism of our Certified Mail
22 proposal; isn't that correct?

23 A Yes, that's one of them.

24 Q Now, what purpose would be served by providing
25 clarifications, if indeed they are necessary, of cost

1 revenue figures in Docket Numbers R90 and R94 in this docket
2 if the information wouldn't really inform the Commission's
3 evaluation of the Certified Mail proposal?

4 A In this instance, the Postal Service has had a way
5 of doing its cost presentations for certain special
6 services, Certified Mail in particular, including return
7 receipt and restricted delivery, has been quite consistent
8 over the past. I have workpapers here from ^{R84}~~R94~~ showing a
9 methodology. I have workpapers from R90 showing a similar
10 methodology.

11 It seemed to be a prudent methodology and out of
12 the blue it seems like things have changed. I think it is
13 more than semantics. Your objection to my answering one of
14 these questions seems to make it like ^amere cost coverage
15 change. Cost coverages are important but so are costs and
16 how you look at them and whether you have one cost that
17 covers three services and has for the last 15 or 20 years
18 and now you are saying there is one cost and it ^{covers}~~costs~~ one
19 service and the costs of these other services are spread
20 around in other places under, maybe, other or something
21 else. I think ^{this}_e should be explained and explained to this
22 Commission. I don't think I am the only one in this room
23 that is confused.

24 In that way, I do think history matters.

25 Q Let's assume that your interpretation and

1 criticism of the record is accepted by the Commission.
2 Earlier you told me that it really isn't relevant to the
3 Commission's analysis that the cost coverages or that the
4 cost coverages were below 100 in earlier dockets. You were
5 focused on this docket.

6 Are you suggesting that the Commission could take
7 this information into account or not?

8 A We have two different instances and two different
9 questions. One was just specific cost coverage which is a
10 fairly simple computation. If you take and the -- on the
11 same bases, you had a cost in one case and a revenue in one
12 case and you came up with a cost coverage which was far
13 below attributable costs and now it is above attributable
14 costs, that is one instance. The other instance which I was
15 speaking to, you have a difference, you have one cost that
16 meant one thing in one case and over many cases, over 15 or
17 20 years and now you are saying that that is wrong and it
18 needs an explanation.

19 I don't see that you are talking about the same
20 thing here. I don't think I was inconsistent.

21 Q I haven't asked you if you were inconsistent on
22 this subject.

23 A Well, I am telling you that I was not
24 inconsistent.

25 Q Okay, we can get to that later and I am not going

1 to accept that for now as a response.

2 What I am interested in is whether or not the
3 historical information about cost coverages is relevant to
4 the Commission's analysis of Certified Mail fees in this
5 docket or not?

6 A I believe it was or I wouldn't have testified to
7 it.

8 Q So earlier you told me that the Commission could
9 do whatever it needed to do in the test year and didn't need
10 to consider prior dockets.

11 A I think I explained my position quite well, I
12 think.

13 Q I don't think it was explained at all.

14 I want to know what the Commission should
15 consider.

16 MS. DREIFUSS: Commissioner Haley, that is a very
17 general question that is pending now. Could Mr. Alverno now
18 state a specific question for Witness Collins to answer?

19 MR. ALVERNO: I want to know -- I want to know if
20 the Commission should consider past cost coverages, for
21 example in Docket Number R94-1 and Docket Number R90-1, for
22 Certified Mail, should it consider those cost coverages in
23 this docket when evaluating whether or not to recommend a
24 change in the fee for Certified Mail.

25 THE WITNESS: There has been a change and the

1 change has not been adequately explained to my mind and I
2 think that the Postal Service has an obligation to the
3 Commission to explain itself, to explain what has happened
4 over history. I am not saying you are trying to pull the
5 wool over our eyes but things are very, very different and I
6 think that the Commission is owed an explanation.

7 I believe the OCA has tried from the beginning of
8 this case to illuminate this matter on many, many occasions
9 and a clear explanation just hasn't been forthcoming. I am
10 not sure what the Commission is going to do. Maybe a ray of
11 light will strike it and everything will become clear. But
12 it was not clear to me, it is still not clear to me and I
13 think that the record needs clarification.

14 BY MR. ALVERNO:

15 Q To serve what purpose?

16 A So that it can set its rates appropriately.

17 Q So you are saying that the Commission can and
18 should take into account the past cost coverages for
19 Certified Mail, for example, in Dockets R90 and Dockets R94-
20 1, when evaluating the fee for Certified Mail in this
21 docket?

22 A I am talking about the way you have defined costs,
23 they seem to have changed over time, they have changed
24 significantly and they need to be explained and when you add
25 into it changes in the RPW which now add -- change the

1 volume so that you have another mish-mosh having merchandise
2 return receipt volumes included with your Certified volumes,
3 I think it becomes even less clear.

4 Q I just need a yes or a no answer.

5 A I can't give you a yes or no answer; it's not
6 clear.

7 Q You are insisting on the one hand that the Postal
8 Service provide information from Dockets Number R90 and R94-
9 1 and you can't tell me if the Commission should or should
10 not take that into account in determining the Certified Mail
11 fee? Is that what you are saying?

12 A I think I have been pretty clear that we are not
13 just talking semantics here; we are talking -- you know, you
14 are talking costs and in your objection you seem to indicate
15 that it's just, you know, Witness Needham clarified
16 everything on the next page. And --

17 Q What purpose would be served --

18 COMMISSIONER HALEY: Just a minute, just a minute.
19 Let her answer.

20 THE WITNESS: If you will look at my answer to
21 your question 25, which I note that you didn't put into the
22 record, however it was, I talk about Witness Lyons's quote
23 that is in my testimony and then I talk about Witness
24 Needham where, in your objection, you seem to think I
25 haven't taken account of her clarification. And I tell you

1 what she says about it and it's still not clear.

2 BY MR. ALVERNO:

3 Q I'm not arguing with you at this point as to
4 whether or not the record is or is not clear. All I want to
5 know --

6 A Well, if you are not arguing with me then it's not
7 clear --

8 COMMISSIONER HALEY: Just a minute, please. All
9 right. We cannot -- the two of you can't talk together. I
10 hope you know that. The record will not respond to --

11 THE WITNESS: I apologize.

12 COMMISSIONER HALEY: All right. Will you continue
13 now or shall we have --

14 MR. ALVERNO: I guess -- I guess I need the
15 Presiding Officer to direct her to answer a very simple
16 question.

17 COMMISSIONER HALEY: I think she was answering the
18 question and you interrupted her.

19 MR. ALVERNO: I think she is not answering the
20 question. She is trying to obfuscate the answer by
21 focusing --

22 MS. DREIFUSS: Commissioner Haley, I think I have
23 kind of picked on where the problem is, and I think the
24 problem is Mr. Alverno is not tying his questions to
25 anything in Ms. Collins' testimony or interrogatory

1 responses.

2 He is throwing out very, very general
3 statements -- why should this happen? -- do you agree? --
4 and it's --

5 COMMISSIONER HALEY: All right.

6 MS. DREIFUSS: -- it's -- that is why we are not
7 making any progress.

8 He needs to cite to specific statements that she
9 has made in her testimony or interrogatory responses and
10 let's proceed from there.

11 MR. ALVERNO: And I did.

12 COMMISSIONER HALEY: Next question, Mr. Alverno.

13 BY MR. ALVERNO:

14 Q Should the Commission consider past historical
15 information about cost coverages for certified mail in this
16 docket?

17 MS. DREIFUSS: Could Mr. Alverno cite to a
18 statement in witness Collins' testimony or interrogatory
19 responses where she addresses that issue?

20 MR. ALVERNO: On page 7 and 8 witness Collins is
21 criticizing the Postal Service for not providing a complete
22 explanation.

23 What other purpose would be served by providing a
24 complete explanation other than to give the Commission some
25 information that it can use to base its recommendations to

1 the Governors on?

2 I mean I can't think of a purpose, you know, for
3 this statement other than witness Collins thinks it is
4 relevant to the Commission's analysis.

5 COMMISSIONER HALEY: Ms. Collins, respond, please.

6 THE WITNESS: There was a way of doing things in
7 the past. It led to certain results. We accepted those
8 results. The Commission acted on those representations.
9 They became law through the Commission decisions.

10 There seems to be a change now. They said an
11 error was made, a change was made, something happened.

12 I think that the Commission needs to have a little
13 line explaining we went from here to there, this is how we
14 did it, this is why we did it, this is the change -- you
15 have got to look at it differently now and this is why you
16 look at it differently now.

17 It makes a difference in the rates, the cost
18 coverages.

19 BY MR. ALVERNO:

20 Q So your answer is yes, the Commission should take
21 the historical information about cost coverages into account
22 in evaluating --

23 A You keep --

24 Q -- ~~this~~ ^{the fee} for certified mail in this docket.

25 A You keep saying cost coverages, and I think it's

1 more than cost coverages.

2 I said it's not just semantics.

3 Q Okay. One of the considerations the Commission
4 can take into account in this docket for certified mail is
5 historical information about certified mail's cost coverage.
6 Do you agree with that statement?

7 A Yes, because at some point it made a healthy
8 contribution to institutional costs and now it seems like
9 maybe it didn't.

10 That seems a little bit relevant but the reason it
11 changed is underlying cost differences.

12 Q Okay. Now let's assume that it's established,
13 witness Collins, that at Commission-recommended rates the
14 after rates costs of certified mail have exceeded its after
15 rates revenues in the test years in Dockets Number R90 and
16 R94-1.

17 A The Commission's rates have exceed costs in R90
18 and R94.

19 Q No. The after rates costs have exceed after rates
20 revenues in Dockets Number R90 and R94 -- just assume that
21 for a second.

22 A Okay.

23 Q Would you agree that it would be appropriate for
24 the Commission to consider recommending a substantial
25 increase in the fee for certified mail in this docket to

1 compensate for a long history of cross-subsidization of
2 certified mail by other products?

3 MS. DREIFUSS: Commissioner Haley, I object to
4 that question being posed for this witness.

5 Other OCA witnesses address that issue, witnesses
6 Sherman and Thompson.

7 Now I guess the opportunity to cross examine
8 witness Thompson has passed, but I believe witness Sherman
9 can address that issue in his testimony and it is not the
10 subject of witness Collins' testimony.

11 MR. ALVERNO: I disagree because witness Collins
12 has placed the state of the record in past dockets into
13 controversy right now and I want to what the Commission can
14 do with that information, and I think she ought to be
15 prepared to testify on that subject.

16 MS. DREIFUSS: Commissioner Haley, just let me
17 mention one more thing.

18 Those portions of witness Collins' testimony that
19 counsellor Alverno has cited really are addressing costing
20 issues and not cost coverage issues and that is what she
21 seems to have said I'll bet 20 times by this point, and it
22 really just seems pointless to continue with this.

23 I think if counsel wants to press the issue
24 whether historical cost coverages should be taken into
25 account in this proceeding and set at the same levels as

1 earlier proceedings and not set at a level so that current
2 cost coverages are maintained based on current rates, then
3 that needs to be addressed I guess at this point to witness
4 Sherman, who is coming up on Wednesday.

5 It could have been addressed with witness
6 Thompson. The Postal Service addressed it to some extent,
7 and if Mr. Alverno continues to have these questions I think
8 they need to be raised with witness Sherman.

9 MR. ALVERNO: These are very different questions
10 from the ones we went through before and I hope that we
11 don't have to go through that litany again, but witness
12 Collins has placed this issue into controversy and her
13 response to USPS/OCA T400-47 is related to the very subject
14 matter of my question.

15 What I want to know is whether it would be
16 appropriate for the Commission to raise the fee for
17 certified mail to make up for past losses that may have
18 occurred due to errors in cost coverage methodology. And I
19 think that Witness Collins is well prepared to answer
20 questions on that subject.

21 MS. DREIFUSS: Mr. Alverno keeps asking questions
22 about cost coverages generally. In the question posed in
23 47, I believe he was talking about costs exceeding revenues,
24 where there was a shortfall --

25 COMMISSIONER HALEY: Ms Dreifuss --

1 MS. DREIFUSS: -- and not cost coverages
2 generally. And that's --

3 COMMISSIONER HALEY: Okay.

4 MS. DREIFUSS: That's where he's getting into
5 trouble, by constantly asking about -- general questions
6 about cost coverages, which is not the responsibility of
7 this OCA witness.

8 MR. ALVERNO: Cost coverages are not considered in
9 isolation of costs or revenues.

10 COMMISSIONER HALEY: I'm going to permit Ms.
11 Collins to answer this question, if you know.

12 MR. ALVERNO: Do you want me to repeat that?

13 THE WITNESS: I'll take a bite at it.

14 COMMISSIONER HALEY: Yes.

15 THE WITNESS: The Commission could do two or three
16 things. They have to know what happened in the past, if
17 they have indeed been below cost and -- as a fault of the
18 Postal Service, they could remedy this in a number of
19 manners. Depending on how low below cost it was, it may
20 take a large increase just to get them up to cost, in which
21 case they may want to mitigate the effect as much as
22 possible and keep it as close to 100 as possible. If it
23 were closer to 100 percent, they may want to raise it a
24 little bit more. Or they may consider the Postal Service's
25 position persuasive and give it a huge increase. There are

1 a number of ways to address it, but they can't address it
2 until they know what happened in the past, how the costs
3 have changed, how they've looked at things, how return
4 receipt enters into it, and this has not been forthcoming.
5 Until they know the past, they can't give you what you want
6 today.

7 MR. ALVERNO: Okay. I didn't hear a response to
8 my question.

9 COMMISSIONER HALEY: Well, just a minute. I think
10 I want to ask you at this point at what stage, Mr. Alverno,
11 are you in time-wise in your cross examination?

12 MR. ALVERNO: I had hoped to be over by this time,
13 but --

14 COMMISSIONER HALEY: I had hoped so, too.

15 MR. ALVERNO: I think we're having some long
16 exchanges here and that's --

17 COMMISSIONER HALEY: Yes.

18 MR. ALVERNO: -- what's contributing to the delay.

19 COMMISSIONER HALEY: Okay.

20 MR. ALVERNO: I think 40 minutes to an hour it
21 seems at the pace we're going right now.

22 COMMISSIONER HALEY: Okay. Well, as you noticed
23 -- then we will have a break. Perhaps counsel can talk a
24 little bit. Let's have a 15-minute break until quarter to
25 six. Thank you.

1 [Recess.]

2 COMMISSIONER HALEY: Let us be back on the record.

3 Mr. Alverno.

4 MR. ALVERNO: Thank you, Commissioner Haley.

5 BY MR. ALVERNO:

6 Q We were on the question, Ms. Collins, that went as
7 follows. Would you like me to repeat it?

8 A I guess so.

9 Q Okay.

10 We're assuming -- we're assuming that it is
11 established that a Commission recommended rates, the after-
12 rates costs of Certified Mail have exceed after-rates
13 revenues in the test years in Docket Numbers R90 and R94 and
14 I asked if it would -- if you would agree that it would be
15 appropriate for the Commission to consider recommending a
16 substantial increase in the fee for Certified Mail in this
17 docket to compensate for a long history of cross-
18 subsidization of Certified Mail costs by other products?

19 A I have answered that question and I don't care to
20 speculate further.

21 Q I don't believe it was. It was not answered. I
22 mean, you gave me -- okay, what was the answer?

23 A I'd like the reporter to read back the answer. It
24 was rather long.

25 COMMISSIONER HALEY: Well, we have a problem

1 there. The runner has taken his tapes and --

2 THE WITNESS: Do I have to run after her?

3 MR. ALVERNO: I have notes here of what the answer
4 said and I can assure you that there was -- I had no
5 response to the answer whether or not the Commission should
6 consider that past information and use it in increasing
7 substantially the Certified Mail fee.

8 MS. DREIFUSS: Commissioner Haley?

9 COMMISSIONER HALEY: Yes.

10 MS. DREIFUSS: I think part of the problem is that
11 the thrust of Witness Collins's testimony is to challenge
12 the premise of Mr. Alverno's question. He is asking her to
13 assume that there were negative cost coverages in specific
14 dockets. And that is exactly what she is challenging, she
15 is challenging that premise, saying she can't accept that
16 premise because the Postal Service hasn't been forthcoming
17 in explaining its costing methodology in this case and why
18 it's different from earlier cases.

19 MR. ALVERNO: There is --

20 COMMISSIONER HALEY: Well --

21 MS. DREIFUSS: So really she has never had
22 occasion to have to grapple with the issue of what she would
23 do if that situation were to exist because it is her
24 position that it does not exist and it would be mere
25 speculation about what she might do in a case like that.

1 COMMISSIONER HALEY: I think from time to time we
2 listen to witnesses and counsel and I suppose you are
3 suggesting what the witness has already said. I don't know,
4 what are you commenting to, Mr. Alverno?

5 MR. ALVERNO: I don't agree at all with OCA
6 counsel's representation about what Witness Collins has
7 said.

8 She has never said that the information that was
9 available in Dockets Number R90 and R94 was acceptable or
10 appropriate or correct. She has raised some questions about
11 it.

12 COMMISSIONER HALEY: Okay --

13 MR. ALVERNO: And I want to know what the
14 Commission -- she's advocating that the Postal Service
15 provide a clarification on the record. We have discussed
16 before in a rather long exchange what purpose that would
17 serve for the Commission rendering a decision on Certified
18 Mail fees.

19 Now, I want to know if, in fact, the state of the
20 record is that the historical information is such that the
21 Certified Mail fee was set too low. I want to know if she
22 agrees. She can offer a professional opinion on whether or
23 not that fee should be increased substantially in this
24 docket.

25 COMMISSIONER HALEY: Okay. I think, rather

1 briefly, Ms. Collins, I would like to ask you to answer that
2 if you can. And you feel that you can answer it.

3 THE WITNESS: Well, first, I believe I have
4 answered it. I would like to respond with a question of my
5 own. Why has the Postal Service not answered the OCA
6 questions, a copy of which is attached to my testimony.
7 They have had repeated opportunities to do that and that
8 would allow the Commission to do whatever it wanted, to
9 raise the fee substantially if it felt it was necessary, to
10 keep it where it was if it felt it was necessary, which is
11 my position right now, that the Commission doesn't have
12 enough information to make a reasoned and careful decision
13 on what the fee for certified should be.

14 To ask me what the magnitude of the increase
15 should be based on R90 and R94 and MC93-3 is not a
16 reasonable question. I have stated in my testimony what I
17 think is appropriate at this point, that information should
18 be forthcoming and that it should be delayed, a fee increase
19 should be delayed until the next omnibus rate case unless
20 the Postal Service definitively proves that it is below
21 cost, Certified Mail that is. And I can't be more explicit
22 than that.

23 MR. ALVERNO: Commissioner Haley, she just -- she
24 just right there invited the question.

25 She is saying, unless the costs exceeded the

1 revenues in prior cases.

2 COMMISSIONER HALEY: All right.

3 MR. ALVERNO: And so I want to know, you know, how
4 the Commission is -- how she is -- what she is advocating
5 the Commission do on the basis of information that I am
6 asking her to assume. I am not asking her whether or not --
7 what ~~to say~~ ^{the state of} the record is now. I am asking her to assume it
8 is a certain way.

9 THE WITNESS: Why should I have to assume anything
10 when the OCA has repeatedly asked the Postal Service for the
11 facts surrounding this issue? The Commission should have
12 the facts, not general assumptions. And my opinion on your
13 general assumption doesn't help. Give them the facts.

14 MR. ALVERNO: Commissioner Haley, we believe we
15 have given the facts, and the questions that were attached
16 to her testimony were answered at hearing -- were posed at
17 hearing when Witness Needham was testifying and were
18 answered.

19 Quite frankly, I think that the witness here is
20 trying to obfuscate the issue. The issue is what is the
21 Commission to do with the information that Witness Collins
22 claims is needed. I want to know what her professional
23 opinion is. If she doesn't have one, I question her
24 credentials to testify before the Commission today.

25 MS. DREIFUSS: Commissioner Haley, Witness Collins

1 has testified that the information is not available;
2 therefore -- and based on the record so far, Witness Needham
3 has established or seems to have established that the cost
4 coverage for certified mail is positive at the present time
5 and she's saying since we don't know whether all of the
6 things that Witness Needham said about past dockets, that
7 cost coverages were very far in the negative direction,
8 she's saying since she doesn't know whether that's true or
9 not, just maintain certified mail fees at their present
10 level. I think her position is very, very clear. She said
11 it many, many times. And I don't think there is any need to
12 keep asking that question again and again and again when she
13 didn't make the assumption that Mr. Alverno was asking her
14 to make; she made an entirely different assumption. That's
15 why she can't answer his question. She didn't make that
16 assumption; she made the reverse.

17 MR. ALVERNO: I'm just asking her to make the
18 assumption. I'm not asking her about the state of the
19 record.

20 COMMISSIONER HALEY: Well, I think we have pursued
21 this much too long, Mr. Alverno, and I would like you to
22 proceed with another question.

23 MR. ALVERNO: May I pose that question in writing
24 to Witness Collins?

25 COMMISSIONER HALEY: I don't think that that would

1 be something that I would grant at this time, no. You
2 proceed with your other questions, Mr. Alverno.

3 BY MR. ALVERNO:

4 Q Could you turn, please, to your testimony at page
5 10, lines 12 to 16.

6 A I have that.

7 Q Now you allude to errors in a methodology in line
8 13, correct?

9 A Witness Needham alluded to errors in her
10 testimony. I responded to that.

11 Q Okay. Now, does -- are you claiming that Witness
12 Needham stated that there were errors in a cost methodology
13 or a cost coverage methodology on line 13 of page 10?

14 A I'm afraid this is the same territory we just went
15 over. I'm not -- I don't have anything further to add to
16 this.

17 Q I don't believe this question has been asked at
18 all.

19 A The subject has been covered.

20 MR. ALVERNO: Is she objecting? The witness is
21 objecting to my question?

22 COMMISSIONER HALEY: I'm sorry, would you repeat
23 the question again. I'm sorry.

24 MR. ALVERNO: Yes.

25 BY MR. ALVERNO:

1 Q You point out that Witness Needham stated that
2 there were errors in a methodology in Docket Number R90-1.
3 My question is whether or not you believe that Witness
4 Needham was referring to errors in a methodology for costs
5 or errors in a methodology for determining cost coverage.

6 COMMISSIONER HALEY: Okay. And what was your
7 response, if any?

8 THE WITNESS: My response was this is the same
9 question I answered about half an hour ago, that he's
10 getting into different semantics, and it's not just
11 semantics, there's a difference.

12 COMMISSIONER HALEY: Well, I would like you to
13 answer the question now, Ms. Collins, if you will.

14 THE WITNESS: I'm trying to.

15 COMMISSIONER HALEY: Okay.

16 THE WITNESS: In previous dockets, there was a
17 cost and from that cost, certain other costs were subtracted
18 to arrive at certified mail costs. It was said that this
19 was in error and that there is a different methodology.

20 COMMISSIONER HALEY: Okay. All right.

21 THE WITNESS: The Commission needs to know what is
22 what, why things changed, and what to do about it.

23 BY MR. ALVERNO:

24 Q So the reference at page 10, line 13, is to a cost
25 methodology, an error in a cost methodology?

1 A Both.

2 Q That's your testimony? Is that a yes?

3 A You can't have a cost coverage without a cost; and
4 if the cost is wrong or the costs change, then the cost
5 coverage is different.

6 Q So you're stating it's both costs -- there were
7 errors in prior dockets in both costs and cost coverages; is
8 that your testimony?

9 A You cannot take the two apart.

10 Q And which dockets in particular do you claim that
11 Witness Needham cited errors in the cost methodology?

12 A We're back to the same thing. She said that, oh,
13 no, Witness Lyons was wrong, it was not a fundamental
14 structural change in costing; it was just a mere cost
15 coverage change. And I'm saying that you can't say that.

16 [Whereupon, the hearing continued in evening
17 session.]

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1 EVENING SESSION

2 [6:00 p.m.]

3 BY MR. ALVERNO:

4 Q What you're referring to, the Transcript 4 at
5 pages 1199, 1200 and -- excuse me, 1199 and 2000 -- you must
6 have meant 1200; is that correct? That's your reference?

7 A Yes.

8 Q I gave you, you and your counsel, a copy of that
9 passage earlier. Could you refer to that, please?

10 A Yes.

11 Q Could you please show me where Witness Needham
12 says that there are problems in cost methodology in prior
13 dockets, excluding Docket Number R90-1?

14 A Witness Lyons said there was a fundamental
15 structural change in costing.

16 Q You are citing Witness Needham here for the
17 proposition so I want to know where in this passage, you
18 know, how does the citation support the statement that you
19 have made.

20 A I'm sorry, I'm citing Witness Needham to say what?

21 Q To say the sentence that begins at page 10, line
22 12, and ends at page 10, line 16.

23 A Just that the predicate for the interrogatory was
24 in error.

25 Q Where -- where in this passage on pages 1199 to

1 2000 in volume 4 of the transcript is there support for this
2 proposition?

3 A Which proposition?

4 Q The sentence that begins at page 10, line 12, and
5 ends at page 10, line 16.

6 A I'm sorry, I'm just not following you.

7 MS. DREIFUSS: I thought Witness Collins had just
8 said a moment ago that it was at page 1200.

9 I don't know if Ms. Collins has taken out the copy
10 that -- Mr. Alverno provided some -- provided some materials
11 earlier.

12 Could I have a moment off the record, please?

13 COMMISSIONER HALEY: Yes.

14 Off the record.

15 [Discussion off the record.]

16 COMMISSIONER HALEY: Are you answering now or
17 what?

18 THE WITNESS: Frankly, sir, I don't know.

19 COMMISSIONER HALEY: That's your answer,
20 Mr. Alverno.

21 THE WITNESS: I don't know whether I'm answering.

22 COMMISSIONER HALEY: Oh, I thought that was the
23 answer. Okay.

24 Then will you ask your question again, please.

25 MR. ALVERNO: Yes.

1 BY MR. ALVERNO:

2 Q I want to know, Witness Collins, where at pages
3 1199 to 1200 --

4 A Okay.

5 Q -- there is support for the proposition that
6 Witness Needham said that there were -- that there was an
7 error in the cost -- the cost methodology as distinguished
8 from the cost coverage methodology other than Docket Number
9 R90-1.

10 A I would like to repeat, where there was an error
11 in the cost methodology as opposed to the cost coverage
12 methodology in Docket Number R90-1?

13 Q Other than Docket Number R90-1, so in other words
14 since 1984. I presume that means Docket Numbers R84-1 and
15 R87-1.

16 A I presume that the same errors were made if an
17 error was made in R90.

18 Q And you're citing Witness Needham for that
19 proposition and I would like to know where exactly Witness
20 Needham says that?

21 A On page 1200.

22 Q Where?

23 A Errors, the errors were.

24 Q What line, please?

25 A Line 7. Line 3 says, "Now ^{you are} ~~you're~~ saying there are

1 errors in that document?"

2 Q What is the document that is being referred to in
3 that passage?

4 A Witness Larson's workpapers, I believe, from R90.

5 Q Okay, so we are talking about Docket Number R90.

6 My question is about dockets other than R90.

7 A Were the same errors made?

8 Q That's what you're claiming. At page 10, line 16.

9 A Yes, sir, I can give you a reference to ^{R84}~~R94~~, I
10 have the pages right here.

11 Q This is not the response I am looking for. I am
12 trying to find out --

13 [Laughter.]

14 A I'm sorry that that's my response.

15 Q That's not a response at all.

16 MS. DREIFUSS: Wouldn't it be possible for Postal
17 Service counsel, if he believes that Witness Collins has
18 misrepresented Witness Needham's testimony, couldn't he make
19 that argument on brief?

20 I mean, the transcript is very clear about what
21 Witness Needham did or didn't say, it's very clear, and I
22 believe he could take her statements and present the Postal
23 Service's position on that at a later time. It seems
24 pointless to have witness Collins go over and over and over
25 again what -- it's a "he said/she said" -- and I don't think

1 it's really going to be productive.

2 COMMISSIONER HALEY: Well, I would hope that we
3 can proceed on the questions that Ms. Collins can answer and
4 if you don't have the answers, then, you know, you should
5 just say so, Ms. Collins.

6 THE WITNESS: I'm sorry, sir. I answered the
7 question.

8 COMMISSIONER HALEY: All right.

9 MR. ALVERNO: There is no answer to this question.
10 She has made a representation about what happened
11 in prior dockets -- dockets prior to Docket Number R90-1.

12 I am unable to find in the quoted passage or the
13 cited passage where exactly that is stated, and I feel like
14 I am entitled to inquire about this.

15 She has made a representation about what her
16 witness said and I want to know where -- where we can find
17 support for that proposition.

18 MS. DREIFUSS: Witness Collins I thought just a
19 moment ago explained that it was at page 1200 of that
20 transcript.

21 MR. ALVERNO: No. Witness Collins established
22 that that was in regards to a document from Docket Number
23 R90-1.

24 She has made representations about Docket Number
25 90-1 and dockets prior to that up to 1984 and I want to know

1 about Dockets Number R84-1 and Docket Number R87-1 and I
2 want to know where in the cited passage we can find that
3 information.

4 If the witness can't do it, I would like to strike
5 this portion of her testimony as well as her response to
6 OCA -- excuse me, USPS/OCA 25C and OCA 3C where she makes
7 representations about problems in costing that existed in
8 one docket, not many dockets.

9 MS. DREIFUSS: If that is indeed a pending motion
10 to strike, Commissioner Haley, I think I am going to need
11 several minutes to go through the exact portions of
12 testimony and interrogatory responses that are the subject
13 of the motion so that I can respond.

14 May I have that time, or is there indeed a motion
15 to strike pending?

16 MR. ALVERNO: Is she prepared to provide an answer
17 to the question or not?

18 THE WITNESS: Would ^{you} like a reference to Docket
19 Number ^{R84-1} ~~R94-1~~?

20 MR. ALVERNO: No. I want to know where in the
21 cited passage in this docket, in the transcript in this
22 docket, you find support for this proposition.

23 THE WITNESS: What is the antecedent of "this"?

24 MR. ALVERNO: This proposition. You are saying in
25 your statement at page 10, lines 12 to 16, that there was a

1 problem in the cost methodology and you are saying that it
2 not only occurred in Docket Number R90-1, you are saying it
3 occurred in prior dockets since 1984.

4 THE WITNESS: Witness ^{Lyons'} ~~Lion's~~ work paper number
5 six, page 2 of 2, R84-1, certified mail fee design, total
6 cost and volumes in the thousands -- test year before rate
7 costs -- return receipt -- excuse me.

8 Test year before rate cost, 125375 --

9 MR. ALVERNO: I would like to strike this.

10 This is the --

11 THE WITNESS: -- return receipt --

12 MR. ALVERNO: This is not the question --

13 COMMISSIONER HALEY: Just a minute, please.

14 THE WITNESS: Minus 68277, restricted delivery
15 cost, minus 3655 equals test year before rate costs with
16 ancillary services removed, 53443, markup factor, target
17 revenue -- et cetera.

18 MS. DREIFUSS: Commissioner Haley, may I approach
19 the witness. I believe I found the cite at page 1200 that
20 counsel is asking her about --

21 MR. ALVERNO: No.

22 I object. This is ridiculous.

23 Who is answering the questions here?

24 COMMISSIONER HALEY: Wait a minute, wait a minute.

25 MS. DREIFUSS: Witness Collins --

1 COMMISSIONER HALEY: Please --

2 MS. DREIFUSS: -- if she agrees with what I am
3 about to show her can state for the record where it is
4 located.

5 If she disagrees with what I am about to show her,
6 she will not so state.

7 MR. ALVERNO: I object. I don't believe that the
8 counsel for the OCA has any right to assist the witness in
9 answering a question.

10 COMMISSIONER HALEY: Well, that is fairly unusual.

11 MS. DREIFUSS: Commissioner Haley, it's late --

12 COMMISSIONER HALEY: Yes, we know.

13 MS. DREIFUSS: And these questions are answered
14 again and again.

15 I don't think that this witness should be put at a
16 disadvantage because of the lateness of the hour.

17 If she just has -- if her eyes as she is pouring
18 over this sheet doesn't pick it up, I don't see any problem
19 in my pointing it out to her.

20 MR. ALVERNO: This is coaching the witness, for
21 goodness sakes. This is outrageous.

22 MS. DREIFUSS: As I said --

23 MR. ALVERNO: This should not continue.

24 MS. DREIFUSS: -- if she doesn't agree with what I
25 am about to show her, she will not --

1 MR. ALVERNO: I don't care what --

2 MS. DREIFUSS: -- not state it for the record.

3 MR. ALVERNO: I would move to strike any answer
4 that is assisted by counsel for the OCA.

5 MS. DREIFUSS: I object to further questions along
6 this line and I oppose the motion to strike her testimony.

7 She did rely on something. She may not be able to
8 remember it or recall it at this moment on the stand. That
9 doesn't mean it's not accurate at the time that she was
10 writing her testimony.

11 COMMISSIONER HALEY: Well, I'm going to permit
12 counsel to show the witness the evidence that you want to
13 present but I would like her response and she can say some
14 of the things that you are saying, suggesting perhaps, but I
15 am not going to permit counsel to show her some information.

16 Ms. Collins, I would like you to respond to the
17 question, if you can.

18 THE WITNESS: I think this kind of revolves around
19 a question, is changing the components of the cost of a
20 service a change in costing or is it a change in the cost
21 coverage methodology and I think that sums up what we have
22 here.

23 We previously had a cost which had three
24 components which were subtracted, which were used in a
25 certain manner. Now, they are saying we have a different

1 component. We have one number which does not deserve to
2 have anything subtracted from it. Perhaps that is correct,
3 perhaps it is not.

4 What I am saying is, who knows?

5 COMMISSIONER HALEY: I think the question that has
6 been posed, though, Ms. Collins is one that is really a
7 legitimate question and I would like you to respond as best
8 you can to the one that counsel has asked you.

9 When you -- when Witness Needham was cross-
10 examined on this issue -- this is your statement -- she
11 stated that the methodology used in Docket R91, which was
12 the predicate for Interrogatory OCA-USPS-T8-9, cross-
13 examination exhibit was in error and has been in error since
14 1984.

15 Do you recall having written that?

16 THE WITNESS: Yes, I remember that.

17 COMMISSIONER HALEY: Okay, all right.

18 So, could you respond and answer counsel's
19 question to you?

20 THE WITNESS: I have to respond with a question,
21 sir --

22 COMMISSIONER HALEY: No, no, no --

23 THE WITNESS: I have to. I asked for an
24 explanation and I never got one.

25 COMMISSIONER HALEY: But this is your testimony.

1 THE WITNESS: My testimony is that the record is
2 not clear. Do you know what the truth is? Does the staff
3 know what the truth is? How can the Commission make a
4 recommendation on this service without an explanation?

5 I am not trying to make things worse; I'm trying
6 to help.

7 COMMISSIONER HALEY: Yes, we appreciate that. We
8 are trying to help too, right now.

9 THE WITNESS: I know, sir.

10 MR. ALVERNO: The witness is trying to answer the
11 question through what she perceives the record to be. I am
12 asking her to simply provide support for her
13 characterization or, I would say, misinterpretation of
14 Witness Needham's testimony.

15 MS. DREIFUSS: Commissioner Haley, I --
16 Mr. Alverno is obviously interested in hearing or having
17 Witness Collins look through the three pages of transcript
18 that she cited in her testimony.

19 Would it be appropriate -- I will not advise or
20 assist the witness on this -- would it be appropriate to
21 give her five minutes, she can do it right there as she's
22 sitting there, five or ten minutes to look very carefully,
23 line by line, through the transcript cite because sometimes
24 it is very difficult, in the tension of being a witness, of
25 spotting something that's on the page? Could we just give

1 her five or ten minutes off the record to look very
2 carefully at those three pages?

3 COMMISSIONER HALEY: She has the information there
4 before her, is that right?

5 MS. DREIFUSS: If she has pages 1198, 1199 and
6 1200 before her. I believe she does and those are the pages
7 that I think she ought to be given an opportunity to review
8 very carefully and those are also the pages that Mr. Alverno
9 provided to me and to her before her cross-examination
10 began.

11 MR. ALVERNO: I really think that this is -- this
12 is a problem, that -- that -- that Witness Collins created.
13 And I have asked for this question in writing and,
14 unfortunately, witness -- or counsel for the OCA insisted
15 upon having oral answers. Now when they get to oral
16 answers, she wants to take her time.

17 Not only that, counsel for OCA is completely
18 assisting the witness by directing her to read the testimony
19 or the transcript cites for five minutes? I mean, how could
20 anybody, you know, make these representations and then not
21 be able to answer the questions off the spot?

22 I would just move to strike this portion of the
23 testimony. She obviously can't answer questions about it
24 competently and I have interrogatory responses I would like
25 to strike as well.

1 MS. DREIFUSS: I oppose the motion to strike,
2 Commissioner Haley.

3 MR. ALVERNO: Come on, you know it's wrong.

4 COMMISSIONER HALEY: I'm not inclined, certainly,
5 to sustain a motion to strike at this point.

6 THE WITNESS: Your Honor, may I just say that we
7 asked the Postal Service questions in writing and begged
8 them to answer in writing and they didn't answer us in
9 writing either.

10 COMMISSIONER HALEY: Ms. Collins, just a minute.

11 What I think I will do is we will go off the
12 record for five minutes and let you think about it without
13 counsel's benefit right now. Okay.

14 [Recess.]

15 COMMISSIONER HALEY: May we be back on record
16 again.

17 I think now, Ms. Collins, we're back to you and
18 your response to this question.

19 THE WITNESS: I have nothing further to add.

20 MR. ALVERNO: I renew my motion to strike that
21 sentence and I have others.

22 MS. DREIFUSS: Commissioner Haley, during the
23 break, OCA counsel, I believe -- it wasn't me; it was Mr.
24 Costich -- had a conversation with Mr. Alverno in which he
25 pointed out to Mr. Alverno those lines of Witness Needham's

1 testimony that we thought probably provided the citation
2 that was being sought. And I guess, frankly, I have to say
3 Mr. Alverno is playing games. He won't permit me nor will
4 he be willing to cite our witness to those lines of the
5 transcript. It seems to be --

6 MR. ALVERNO: I believe that's a misrepresentation
7 of what just occurred. That is a misinterpretation, because
8 I did not make a representation that that's what -- what
9 --you know, what is relevant to this inquiry.

10 MS. DREIFUSS: No, I --

11 MR. ALVERNO: That is --

12 COMMISSIONER HALEY: Just a minute. Just a
13 minute. Just a minute.

14 MS. DREIFUSS: I agree that you did not concede
15 that they were relevant to this inquiry, but that OCA
16 believed that it was relevant.

17 COMMISSIONER HALEY: Okay.

18 MS. DREIFUSS: And we could proceed instead of
19 being at a standstill as we are now if Witness -- if
20 Counselor Alverno will simply cite those several lines of
21 the transcript to OCA's witness, we might be able to go
22 forward. He may disagree, he may be able to establish that
23 they're not relevant, although OCA believes that it is.

24 COMMISSIONER HALEY: Okay.

25 MS. DREIFUSS: But we're at a standstill if he

1 won't do that.

2 COMMISSIONER HALEY: All right.

3 MR. ALVERNO: I disagree. The remedy here is to
4 strike the portion of the witness' testimony. She is not
5 competent to testify on this subject matter. And I refuse,
6 I refuse to cite those sections of the testimony, of the
7 transcript, because I know that those sections of the
8 transcript do not support the statement that Witness Collins
9 made.

10 COMMISSIONER HALEY: Well, we're not prepared to
11 strike any testimony at this point, Mr. Alverno. We're not
12 prepared to do that, and we're not going to do it.

13 THE WITNESS: May I jump in?

14 COMMISSIONER HALEY: No, you may not.

15 In response to you, Ms. Dreifuss, I think that if
16 there is nothing further that the witness is going to say
17 here, you certainly have the opportunity on redirect to make
18 some responses, I would think. I would hope. Yes.

19 MS. DREIFUSS: Thank you, Commissioner Haley.

20 COMMISSIONER HALEY: All right.

21 Now, will you proceed, Mr. Alverno, if you have
22 some other questions at this point.

23 MR. ALVERNO: So that's -- I'm to live with the
24 answer that I received? Is that --

25 COMMISSIONER HALEY: If that's the only answer the

1 witness will give, you'll have to live with it?

2 MR. ALVERNO: May I make a written motion to
3 strike that portion of the testimony?

4 COMMISSIONER HALEY: You can always make a written
5 motion.

6 MR. ALVERNO: Even though it's been received into
7 evidence and so on, I can still make the motion?

8 COMMISSIONER HALEY: Well, I'm saying at this
9 point we're not prepared --

10 MR. ALVERNO: Prepared to receive it orally, but I
11 --

12 COMMISSIONER HALEY: Exactly.

13 MR. ALVERNO: I can submit this in writing?

14 COMMISSIONER HALEY: That's right.

15 MR. ALVERNO: Thank you.

16 BY MR. ALVERNO:

17 Q Could you please turn to your response to
18 USPS/OCA-T400-40.

19 A I have it.

20 Q Now, you state that the 20 cent rate for Postal
21 and postcards is based on a mark-up of costs that reflects
22 the Commission's cost methodology as reflected in its
23 recommended decision in Docket Number R94-1 on
24 reconsideration; is that correct?

25 A Yes.

1 Q So for rate-setting purposes, would you agree that
2 the Commission has not to date distinguished between Postal
3 cards and private cards?

4 A Yes.

5 Q And postal cards are not considered in isolation
6 for rate-setting purposes; isn't that correct?

7 A No.

8 Q It's not correct or they are not considered --

9 A No, they are not. I'm sorry.

10 Q They are not considered in isolation for rate-
11 setting purposes, correct? I'm sorry, I'm just a little
12 confused here because I heard a no and then a yes and --

13 A No, Postal cards and postcards are generally
14 considered at the same time.

15 Q And isn't it true that in setting rates for rate
16 categories in the Postal and postcard subclass, the
17 Commission has applied a mark-up to all Postal and postcard
18 attributable costs, then set the non-presort rate, and then
19 determined worksharing discounts?

20 A Has determined a mark-up for the subclass as a
21 whole.

22 Q Based on the subclass' attributable costs.

23 A Correct.

24 Q Then set the non-presort rate, and then determined
25 worksharing discounts.

1 A I believe that's true, but I'm not real conversant
2 with --

3 Q Subject to check, would you ~~be~~ *that*

4 A Yes.

5 Q Okay. And isn't it true that Postal card
6 manufacturing costs were among the attributable costs the
7 Commission considered in Docket Number R94-1 in setting
8 rates for a Postal and postcard subclass?

9 A The manufacturing costs of Postal cards are
10 included in the attributable costs of Postal cards and they
11 are generally lumped together with all the attributable
12 costs.

13 Q All the attributable costs of the Postal and
14 postcard subclass?

15 A Correct.

16 Q Now, would you please turn to your testimony at
17 page 24, lines 14 to 16.

18 A I have it.

19 Q Now, you state that if certain attributable costs
20 are to be shifted from the postcard subclass to a special
21 service --

22 A Where are you speaking from? You spoke to three
23 pages.

24 Q Page 24, lines 14 to 16.

25 A Yes.

1 Q You state that if certain attributable costs are
2 to be shifted from the postcard subclass to a special
3 service, then rates for post and Postal cards should be
4 reexamined; is that correct?

5 A Yes.

6 Q Now, when you talk about reexamining rates for
7 Postal and postcards -- excuse me -- to post and Postal
8 cards, to what rates are you referring?

9 A The present 20 cent rate.

10 Q What is the present 20 cent rate? For what?

11 A For non-presorted post and Postal cards.

12 Q Could you repeat that, please? Non-presorted --

13 A Post and Postal cards.

14 Q So it's one combined rate?

15 A Correct.

16 Q So if I understand your testimony correctly,
17 you're saying if we shift the manufacturing cost of postal
18 cards from the postal and postcard subclass to a Special
19 Service we should also re-examine the rate for private
20 postcards or alternatively the non-presort rate, which
21 includes private postcards, isn't that correct?

22 A That was a long question. Could you repeat it?

23 Q If I understand your testimony correctly, I think
24 you are saying the following and I ask if you could either
25 agree or disagree.

1 Are you saying that if we shift the manufacturing
2 costs of postal cards from the postal and postcard subclass
3 to a Special Service fee for stamped cards we should also
4 re-examine the rate for private postcards or alternatively
5 the non-presort rate which includes private postcards.

6 A Any time you shift costs you would have to examine
7 them when you do rate-setting, so yes.

8 Q And why would you reconsider the rate for a
9 category that includes private postcards if, as you state
10 earlier, postal card manufacturing costs are already
11 included in postal card costs?

12 A Because in general when you shift costs you should
13 examine the subclasses or rate categories from which you
14 shift them from and the rates which apply to the specific
15 pieces of mail in those categories.

16 Q So there is a cause and effect relationship
17 between the manufacturing costs of postal cards and the rate
18 for non-presort private postcards?

19 [Pause.]

20 THE WITNESS: In this case postal cards have a
21 line item in the CRA which contains their manufacturing
22 costs and those costs are attributed solely to postal cards.
23 They shouldn't have anything to do with postcards.

24 BY MR. ALVERNO:

25 Q So you deny that there is a cause and effect

1 relationship between the movement of the manufacturing costs
2 of postal cards from the Postal and Postcard subclass to a
3 Special Service fee for stamped cards and --

4 A Wait a minute --

5 Q You are denying -- in other words, you are denying
6 there is a cause and effect relationship between where those
7 manufacturing costs end up and the rate for private, non-
8 presort postcards?

9 A In the case we are talking about particularly,
10 postal cards, attributable costs -- unit attributable costs
11 are so low that if you took out the manufacturing costs it
12 will change very little.

13 Q What will change very little?

14 A The total cost.

15 Q So the total cost for the Postal and Postcard
16 subclass will change very little if we take out those
17 manufacturing costs, is that your testimony?

18 A Of the subclass costs, yes. It's a very small
19 component.

20 Q And so the really -- are you suggesting that there
21 really wouldn't be an effect or you wouldn't consider
22 changing the Postal and Postcard non-presort rate if we took
23 the manufacturing costs out of the Postal and Postcard
24 subclass?

25 A You would have to look at it and consider it when

1 you are doing it.

2 Q Can you offer an opinion on that subject?

3 A Could you repeat the question again?

4 Q Yes. Can you offer an opinion, please give us
5 your professional opinion on whether or not that the amount
6 of change in costs resulting from the movement of
7 manufacturing costs of postal cards from the Postal and
8 Postcard subclass to a Special Service fee is sufficient to
9 cause the Commission or you to re-evaluate the rate for post
10 and postal cards?

11 A Any time you shift those costs I think that you
12 should consider them.

13 Q But earlier you told me that they really
14 weren't --

15 A They are very small.

16 Q So should we really, do we really have to
17 reconsider the rates for Postal and Postcards if we have
18 such as small shift in costs?

19 A You are taking the manufacturing costs of postal
20 cards out of the post and postal card subclass and you are
21 asking whether that should trigger the rate for the single
22 piece rate for the single piece rate for post and postal
23 cards?

24 Q Or all the rates in the post and postcard subclass
25 for that matter.

1 A Including the presort?

2 Q Presort, nonpresort, you name it.

3 A In general, I would say, yes, you would look at
4 them.

5 Q What about in this circumstance when we have a
6 shift of about \$4 million proposed, in that range?

7 A In that range, out of -- I think it was on the
8 order of 600 or 700 million in the subclass.

9 Q I think it amounts to about .6 to .8 percent, in
10 that range, of the total subclass costs.

11 A Right.

12 That would not generally cause a change in rate.

13 Q Thank you.

14 Let's turn now to your response to USPS-OCA-T400-
15 23B-2. Now, you state that you would not support a proposal
16 for a stamp card fee if postal card manufacturing costs were
17 included in the institutional costs of the Postal Service;
18 is that correct?

19 A Yes.

20 Q And as I understand your reasoning for your
21 position is that the implicit cost coverage of postal cards,
22 excluding manufacturing costs is, in your opinion, high?

23 A It is.

24 Q It is high or it is your reason for opposing your
25 proposal?

1 A It is both.

2 Q Okay.

3 Now, let's suppose that the manufacturing costs of
4 postal cards are attributed to the postal and postcard
5 subclass, so we are changing the assumption. In fact, we
6 are modeling reality.

7 Let's also assume --

8 A Pardon me, we're modeling reality?

9 Q In other words, let's just suppose -- let's remove
10 the assumption that the manufacturing costs are in the
11 institutional costs. Let's just go back to the present
12 state of affairs where we have them included in the postal
13 and postcard subclass.

14 A Okay.

15 Q Now, let's assume that the attributable costs for
16 postal cards exceeded the attributable costs for private
17 cards by an amount, say, equivalent to the manufacturing
18 costs of postal cards. Would you then favor --

19 A One minute. Postal cards cost more than
20 postcards? By \$4 million?

21 Q Exactly.

22 Would you then favor a classification change to
23 create a separate stamp card fee?

24 A I would have to look at it in those circumstances.
25 My testimony is the circumstances of this case, in which

1 case the costs of postal cards are less than half or
2 approximately half of postcards. A separate fee doesn't
3 seem to make sense in this case.

4 Q Well, would it make sense if postcard users were
5 making greater contributions to overhead than postal card
6 users, to have a separate fee for stamped cards?

7 I am not asking for a specific rate, either. I am
8 just asking, the classification itself, is it appropriate to
9 consider the classification in that circumstance? That is,
10 when private postcard users are making greater contributions
11 to overhead than postal card users.

12 A On page 22 of my testimony, line 5, I think I
13 state, in principle, a separate fee to cover the
14 manufacturing costs of ancillary supplies provided by --
15 provided mailers may be reasonable. I didn't look at all
16 circumstances. I looked at the circumstances of this case
17 and it did not appear to be reasonable to me. These are
18 very profitable postal products, they are providing a very
19 large contribution to institutional costs. They are
20 covering their attributable costs.

21 In this case, a separate fee just didn't seem to
22 make sense to me. I don't want to speculate. I may change
23 my -- given the next rate case, circumstances may be very
24 different. I think I have laid it out fairly clearly here
25 on not only page 22. I think I state it again. I might

1 have stated it at the beginning but that's where we are.
2 This is the case I'm testifying in. I'm not testifying in
3 the hypothetical case.

4 Q And in this case it's really -- it's the
5 contribution that is being made by postal cards that really
6 informs your opposition to the stamped card fee proposal,
7 the classification changes to the stamped card fee proposal?

8 A I think again I stated that at page 25 that this
9 is a guise of a new Special Service and it's not so much of
10 a service to give them an extra charge when they are paying
11 a lot already.

12 They are covering all their costs.

13 Q Right --

14 A Including the manufacturing costs.

15 Q But I mean it's the fact that they are
16 contributing more than private postcard users that -- or a
17 substantial amount -- one of the two -- or perhaps both that
18 is informing your opposition to this proposal.

19 It's sort of the rate-cost differential.

20 A Well, that's part of it, but I have looked at the
21 differences between post and postal cards in general, and
22 not only do they have different costs, they seem to have
23 different operational characteristics and people seem to
24 look at them differently.

25 In some ways they are not substitutes for each

1 other but in this case postal cards seem to be very -- I
2 don't want to say cheap. They seem to be easy for the
3 postal service to process and to make them special by giving
4 them an extra fee when they are contributing a lot to the
5 system as it is just doesn't seem appropriate.

6 Q So you are saying that they have different values
7 of service.

8 A Yes, they might, but it depends on an
9 individual -- right now we have got a subclass and you look
10 at everything together, but as an individual I might value
11 one over the other.

12 Q When would you value postal cards more than
13 private cards, in what circumstances?

14 A I doubt that I ever would. I would value a
15 postcard more.

16 Q And why is that?

17 A This is just my personal experience. When I want
18 a postcard, I want a postcard and it's generally because it
19 has a nice glossy picture on it and I am on vacation and I
20 want to send a note to some friends or family.

21 Q But in that circumstance you are purchasing the
22 private postcard for reasons other than stationery, aren't
23 you?

24 A No. I would say I am purchasing it for a large
25 part because of the stationery.

1 Q But you just said you were on vacation -- I
2 suppose you are buying a card that's got a picture or some
3 glossy design on it or something, aren't you?

4 A Again, this is -- I went recently on vacation and
5 I spent extra money to buy postcards that had a great big
6 lobster on it so that I could send it to all my friends and
7 make them jealous.

8 ^{couldn't}
9 I ~~wouldn't~~ do that with a postal card so I don't
10 know that value of service between one and the other is
11 particularly relevant right here.

12 Q Well, you just made some representations about
13 value of service in comparing postal cards and private
14 cards.

15 You are saying senders may perceive them
16 differently, correct?

17 A That's true with any piece of mail.

18 Q Now in your response to -- well, I am puzzled by
19 that response because in your response to USPS/OCA T400-23A
20 you say that --

21 A But I think I made a very similar response in one
22 of my other interrogatory answers.

23 Q I am curious about --

24 A That there's a difference --

25 Q No, I am curious about -- no, I am curious about
26 what you are saying in 23A.

1 You are saying that "Comparisons of value of
2 service between postal cards and private cards do not appear
3 relevant because they are not separate subclasses."

4 Isn't that just entirely inconsistent with what
5 you just told me 10 minutes ago or 5 minutes ago?

6 A No, I think I have repeated that very same thing
7 back to you.

8 Q You just told me that postal card users and
9 private card users may place different value on their cards.

10 You must know that somehow and then you say in
11 your response to the interrogatory that you don't believe
12 that they are relevant.

13 How could they not be relevant?

14 A When you are doing pricing you are doing it at a
15 subclass level and I was speaking as an individual mailing a
16 postcard.

17 Q You are not speaking as an expert witness in that
18 regard? You are coming here as Sherry Collins, user of the
19 mails?

20 A I could give you an instance where I believe that
21 postal cards might have a higher value of service but I
22 don't think that --

23 Q I would like to hear what that is.

24 A But I don't think --

25 Q Please. Indulge me.

1 A -- think that that is what we are talking about
2 here.

3 Q No, I want to know. I do want to know when a
4 postal card user will place a higher value on a postal card
5 than a private postcard, so please --

6 MS. DREIFUSS: Commissioner Quick, we just seem to
7 get further and further and further and further away from
8 relevant questions.

9 I wonder if you could ask counsel to please focus
10 on -- start with a sentence from witness Collins' testimony
11 or a sentence from her interrogatory responses and --

12 MR. ALVERNO: We are launching right from 23A and
13 we are exploring that very sentence, but I am almost through
14 here so --

15 COMMISSIONER QUICK: Good.

16 MR. ALVERNO: I don't think this is going to take
17 that much time.

18 COMMISSIONER QUICK: Your suggested hour is coming
19 to a close here so -- regretfully --

20 MR. ALVERNO: Yes.

21 COMMISSIONER QUICK: -- if you could hone in on
22 your questions.

23 MR. ALVERNO: Yes. I think I have about two
24 left -- maybe some followup out of that, but there's two
25 questions left and they are on this very subject.

1 BY MR. ALVERNO:

2 Q So please now, you mentioned that you could cite
3 some examples of when a postal card user will place a higher
4 value on a postal card than a private card and I would like
5 to know what that is.

6 MS. DREIFUSS: Commissioner Quick, I don't think
7 Ms. Collins said any such thing. He has completely
8 distorted what she said a moment ago.

9 MR. ALVERNO: I guess the reporter could solve
10 this problem for us.

11 COMMISSIONER QUICK: Well, if you wish, we can
12 have it read. But it seems to me that's -- I mean, I
13 thought -- that's what I heard.

14 Can you replay it with ease?

15 [The reporter read the record as requested.]

16 COMMISSIONER QUICK: It's pretty clear to me. Do
17 you want to answer the question now or have it repeated or
18 what?

19 MS. DREIFUSS: Commissioner Quick, my point was
20 not that if Witness Collins -- I guess she did make that
21 statement. She said "an instance." I don't think she drew
22 any general conclusions about postal cards having a higher
23 value of service than private cards. In fact, she went back
24 to the sentence in her interrogatory response where she said
25 it's not relevant to make such comparisons and I certainly

1 don't think she ever made any general statements, certainly
2 not postal cards have a higher value than private cards.
3 But, in general, I don't think she took any position on
4 that, on that issue, just talked about one instance.

5 MR. ALVERNO: That's very nice coaching. That's
6 very nice coaching but --

7 MS. DREIFUSS: Therefore --

8 COMMISSIONER QUICK: Hold on, hold on. One person
9 talk at a time.

10 MS. DREIFUSS: Therefore, I disagree with
11 Mr. Alverno's characterization of what she said; I believe
12 he misrepresented what she said.

13 COMMISSIONER QUICK: Do you want to repeat your
14 question?

15 BY MR. ALVERNO:

16 Q Can you provide examples, as you have indicated
17 before, of when mailers will place a higher value of service
18 on postal cards?

19 A I look to Witness Needham for that. I looked to
20 Witness Needham for that. She gave several examples, I
21 think, in her testimony. But higher value to one mailer
22 versus another is not what the pricing and the
23 classification criteria look at.

24 You look at the subclass as a whole and there
25 isn't one thing about one or the other that seems to be more

1 valuable.

2 Q That -- I didn't hear a response that indicated
3 that circumstance that you were alluding to earlier. What
4 is it?

5 A What is what?

6 Q What -- when -- what is the example that you were
7 alluding to earlier, or perhaps examples, of when mailers
8 would place a higher value of service on postal cards?

9 MS. DREIFUSS: Commissioner Quick, I think we are
10 going to waste a lot of time if Witness Collins -- there are
11 hundreds of millions of cards and there may be a different
12 reason for every single one of them and I can't imagine that
13 the record will be improved by having Witness Collins think
14 about what somebody thinks or believes about one card and
15 then the next and then the next. We could sit here for days
16 going over this.

17 Why doesn't he just ask her what her position is
18 generally on this matter and not ask for specific examples
19 which waste our time?

20 COMMISSIONER QUICK: The question was pretty
21 clear, I thought. And she gave an answer.

22 Now, if it is not the one you wanted --

23 MR. ALVERNO: It didn't cite an example. I
24 mean --

25 COMMISSIONER QUICK: Well, it didn't. But that's

1 her answer.

2 BY MR. ALVERNO:

3 Q Then I take it, if I may ask the question, and I
4 take it that you have no examples to support your previous
5 statement that there are -- that you could think of examples
6 where mailers would place a higher value of service on
7 postal cards?

8 COMMISSIONER QUICK: You got an answer --

9 MR. ALVERNO: I want to know --

10 COMMISSIONER QUICK: And we're getting a little
11 far afield here I think. You got an answer, take it for
12 what you got.

13 MR. ALVERNO: All right, that's all I have,
14 Mr. Presiding Officer, thank you.

15 COMMISSIONER QUICK: Does any other participant
16 have oral cross-examination for Witness Collins?

17 [No response.]

18 COMMISSIONER QUICK: I'm sorry, is there any
19 follow-up cross-examination?

20 [No response.]

21 COMMISSIONER QUICK: Do the commissioners have any
22 questions?

23 [No response.]

24 COMMISSIONER QUICK: Well, if there are no
25 questions from the Bench there's no followup to the

1 questions from the Bench so that brings us to redirect.

2 Ms. Dreifuss, would you like an opportunity to
3 consult with your witness before stating whether redirect
4 testimony will be necessary?

5 MS. DREIFUSS: I would, Commissioner Quick. I
6 don't think I will need much time.

7 COMMISSIONER QUICK: How much, five minutes, ten
8 minutes?

9 MS. DREIFUSS: Five minutes would certainly be
10 sufficient.

11 COMMISSIONER QUICK: Fine.

12 MS. DREIFUSS: Thank you. .

13 COMMISSIONER QUICK: We will go off the record for
14 five minutes.

15 [Recess.]

16 COMMISSIONER QUICK: Ms. Dreifuss, do you wish to
17 continue with redirect?

18 MS. DREIFUSS: No, Commissioner Quick, we have no
19 redirect.

20 COMMISSIONER QUICK: If there is no redirect,
21 there can be no further cross-examination.

22 Thank you, Ms. Collins, we appreciate your
23 appearance here today and your contributions to our record.

24 If there is nothing further, you are excused.

25 [Witness excused.]

1 COMMISSIONER QUICK: I would like to, on a
2 personal note, thank Commissioner Haley for filling in for
3 me while I had to be gone this afternoon. I know it was an
4 interesting afternoon and there was a lot of good testimony
5 and we will have a good, full record.

6 That completes today's business. Hearings will
7 resume tomorrow morning at 9:30 a.m. ^{to} ~~the~~ receive testimony
8 from Witnesses Bentley and Haldi.

9 Thank you. We are adjourned for the evening.

10 [Whereupon, at 7:04 p.m., the hearing was
11 recessed, to reconvene at 9:30 a.m., Tuesday, November 19,
12 1996.]

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